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UNITED STATES TRADE POLICY, 1962

UNITED STATES TRADE AND THE COMMON MARKET *Seymour E. Harris* 65

UNITED STATES TRADE WITH CANADA .... *S. F. Kaliski* 71

TRADE POLICIES IN LATIN AMERICA .... *Robert J. Alexander* 77

TRADE POLICIES FOR THE NON-ALIGNED NATIONS *Robert Loring Allen* 82

UNITED STATES TRADE AND THE SOVIET BLOC . *Vaclav E. Mares* 88

THE FARM SURPLUS AND TARIFF REFORM *Robert L. Tontz and Alex D. Angelidis* 95

INDUSTRY, TRADE AND TARIFFS .... *William N. Leonard* 103

REGULAR FEATURES

CURRENT DOCUMENTS • *The U.S.–Common Market Agreement* ... 111

BOOK REVIEWS 114

THE MONTH IN REVIEW 119

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CURRENT History

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Can the United States afford to adopt more liberal trade policies? In this issue seven specialists discuss the competitive position of the United States in its trade with other nations of the world. In our opening article, Seymour E. Harris examines United States trade with the Common Market and President Kennedy's 1962 proposals for trade expansion. This author observes that the Kennedy administration "has launched the most advanced trade program in our whole history. Recognizing the need of a drastic overhaul of our trade policy in response to the great growth, current and potential, of the rich Common Market, the President seeks the means of penetrating this vast market."

United States Trade and the Common Market

By Seymour E. Harris
Littauer Professor of Political Economy, Harvard University

The theory behind American trade policy since 1934 has been that the country should try to make trade agreements with other countries, thus increasing both imports and exports. It has been held by President John F. Kennedy that since 1934, for example, United States export trade has increased from $2 billion to $20 billion, a measure of some success. It should be noted, however, that during the same period the rise of Gross National Product was about eight times, and with such an increase of GNP one would expect a corresponding rise of trade.

The President is right in saying that this marks a great advance in the relations of nations. But in his able message on trade of January 25 the President made clear that he was not interested in the renewal of the Trade Agreement Act. The Act has already been extended 11 times and each time with difficulty, and in fact with growing protectionism on the part of Congress in the post-war period.

During the years since 1934, and especially since the end of World War II, or just before it, the world was confronted with the economic disease known as dollar shortage. This simply meant that foreigners were having difficulty in finding enough dollars to pay for the goods they felt they had to have from the United States. In this situation the United States could balance accounts by exporting fewer goods or by lending money to foreigners or giving money—that is dollars—to foreigners. Hence, it was considered wise policy to reduce our tariffs more than Europeans reduced their restrictions, but to allow or countenance European growth of trade restrictions as a means of cutting down United

States exports, and therefore making more dollars available to foreigners through this reduction of United States exports or rise of United States imports.

But in the years 1958 to 1960, the United States had an adverse balance of payments of about $11 billion. In other words, the balance of account on goods, services and capital revealed that the United States earned $11 billion less than it had to pay out. This large adverse balance of payments was reflected in the loss of gold and large accumulation of short-term dollar debts to foreign interests and in particular to foreign central banks and governments.

One explanation of the unfavorable balance of payments and the large loss of gold and accumulation of dollar debts was the improved competitive position of Western Europe and Japan vis-à-vis the United States. This was the result, not so much of a rise of wage rates in the United States vis-à-vis foreign countries, because in the last ten years on the whole wage rates have risen abroad more than in the United States. But the situation is less fortunate for the United States when wage rate changes are related to the increase in man hour output. The point is that productivity is rising more rapidly in Western Europe.

When one compares the increase of export prices in Western Europe and the United States one finds considerable evidence that the competitive position of the United States is declining. In my recent book, "The Dollar in Crisis," I wrote as follows:

> . . . But from 1953 to 1960 a very large increase in imports is to be noted, particularly of manufactured goods. William Salant notes that in these years imports of manufacturers rose from $2.2 billion to $5.5 billion, whereas other imports rose only from $8.6 billion to $9.7 billion, or 150 per cent and 13 per cent respectively.

Of course a large rise in imports by this country also points to improved competitive positions for other countries.

Even for the year 1958, a loss of competitive position is noted for the United States. The reduction of the United States share from 1946–1956 to 1958 averaged about five per cent of their level in 1954–1956 for 45 classes of manufactured commodities in six regional markets, an amount equal to about $500 million. The Department of Commerce in a study of 1959 compared the statistics of exports of manufacturers from the United States, and concluded:

> This is a net "short fall" of our exports resulting solely from changes in the United States shares in the individual commodities-by-area markets. In other words, if the United States percentage share of all exports to each of the 270 markets "cells" had been exactly the same in 1958 as during the years 1954–1956, then the aggregate of the United States exports of manufacturers in those markets would have been approximately $8.5 billion instead of the actual $8 billion exports to them in 1958.

The Department of Commerce went on to point out also that our losses were much larger because of the fact that the large growth in recent years has been not in markets of the United States, but in other countries.

THE KENNEDY PROGRAM

It is in this context that we must consider the foreign trade program announced by the President in January, 1962. He was aware of the loss of competitive position. He was aware of the serious dollar problem. He was aware, above all, of the increased growth and coordination and integration of the European Economic Community, (E.E.C.), the six European countries on the Continent—namely, Germany, France, Italy, and the three small countries included in Benelux. He was fearful that unless some revolutionary change were introduced in our trade policy we would lose these important rich markets, and what is more, growing markets.

Here is what the President had to say about the European Common Market.

> The growth of the European Common Market—an economy which may soon nearly equal our own, protected by a single external tariff similar to our own—has progressed with such success and momentum that it has surpassed its original timetable, convinced those initially skeptical that there is now no turning back and laid the groundwork for a radical alteration of the economics of the Atlantic Alliance. Almost 90 per cent of the free world's industrial production (if the United

Kingdom and others successfully complete their negotiations for membership) may soon be concentrated in two great markets—the United States of America and the expanded European Economic Community. A trade policy adequate to negotiate item by item tariff reductions with a large number of small independent states will no longer be adequate to assure ready access for ourselves—and for our traditional trading partners in Canada, Japan, Latin America and elsewhere—to a market nearly as large as our own, whose negotiators can speak with one voice but whose internal differences make it impossible for them to negotiate item by item.

The President was also concerned about the inadequacy of our exports. If we were to stop the loss of reserves, we would have to increase our exports vis-à-vis our imports, and he looked to the Common Market as a means of selling more goods.

What seemed to worry the President especially was the need of finding more jobs for the increased number of workers on the labor market each year, and to reduce the total amount of unemployment which was certainly excessive in 1961–1962. In his January 25 message he spoke of:

> The need to accelerate our own economic growth, following a lagging period of seven years—underlined by the millions of new job opportunities which will have to be found in this decade to provide employment for those already unemployed as well as an increasing flood of younger workers displaced by technological change. . . .

Apparently the President was not worried over the possibility that by lowering our tariffs our market might be inundated with goods, with disastrous results to some of our industries. He argued that "The skill and efficiency of American workers, with the help of our machinery and technology, can produce more units per man hour than any other workers in the world—thus making the competitive cost of our labor for many products far less than it is in countries with lower wage rates." The United States coal miner, he reminded us, was paid about eight times as much per hour as a Japanese miner, but he produced 14 times as much coal, and hence the real cost per ton of coal was much less in the United States.

One of the advantages of the new trade policy as the President saw it resulted from the fact that with this kind of policy we would concentrate more on the commodities in which we have a comparative advantage, that is, an advantage greater than in other industries in relation to other countries. We would thus obtain "a more healthy, efficient and expanding economy, and a still higher American standard of living."

Anticipating adverse reactions from businessmen the President reminded the country that such a trade program would enable us to compete more equally in a rich and rapidly expanding market abroad, "which possesses potentially a purchasing power as large and as varied as our own." The removal of artificial restraints on American efficiency and know-how would assure us of a strong competitive position in many industries.

STIMULUS OF COMPETITION

An argument frequently used in recent years and also presented by the President was that if we would open our markets on a competitive basis by reducing our tariffs, we would then be in a position to compete effectively with foreign countries. The availability of competition would put us on our toes and we would modernize our plants and reduce costs. "To try to shield American industry from the discipline of foreign competition would isolate our domestic price level from world prices, encourage domestic inflation, reduce our exports still further and invite less desirable Governmental solutions."

Above all, the United States must increase her exports in relation to imports. The current excess of $5 billion a year which was an offset to the military expenditures, economic aid abroad as well as capital exports, was not enough to prevent large losses of reserves. It was, therefore, absolutely essential to increase this excess of exports: "if, on the other hand, our surplus should fail to grow, if our exports should be denied ready access to the E.E.C. and other markets—our overseas position would be in danger." Indeed we were competitive enough if we did not have these large foreign commitments abroad, largely

tied to the cold war. An excess of exports of $5 billion is a very satisfactory situation but it is not large enough, given our needs to export capital, to give aid both economic and military; and these exports of capital and aid must be reflected in a rise of exports in relation to imports. We have to increase our exports or reduce our imports.

Above all, the President was concerned about our political and military position. In effect, the Common Market had had the support of the United States for years, and largely on political grounds. Many felt that the Common Market might be used as a means of discrimination against the United States, for the theory of the Common Market was to impose free trade among the partners, and this of course would mean a relative rise in the restrictions against outside countries. Moreover, the Common Market in some of its provisions was in fact increasing its tariff against foreigners at the same time that it was reducing restrictions among members.

The President was indeed fearful that our political and military situation would suffer as the result of our failure to cooperate through trade relaxation with foreign markets.

> Our efforts to promote the strength and unity of the West are thus directly related to the strength and unity of Atlantic trade policies. An expanded export program is necessary to give this nation both the balance of payments equilibrium and the economic growth we need to sustain our share of Western military security and economic advance. Equally important, a freer flow of trade across the Atlantic will enable the two giant markets on either side of the ocean to impart strength and vigor to each other, and to combine their resources and momentum to undertake the many enterprises which the security of free peoples demands. For the first time, as the world's greatest trading nation, we can welcome a single partner whose trade is even larger than our own—a partner no longer divided and dependent, but strong enough to share with us the responsibilities and initiatives of the free world.
>
> . . . In the final analysis of our success in this undertaking, economic isolation and political leadership are wholly incompatible. We shall need these new trade relations in order to assure ourselves an effective part in making the basic military and political decisions. We must adapt our own economy to the imperatives of a changing world, and once more assert our leadership.

United States trade is important in Western Europe and particularly in the Common Market, and as other Western European countries join the Common Market our problem will become more serious. We therefore want to penetrate this Common Market, especially as it is enlarged. But we are also fearful of the effects of our relations with the Common Market upon the trade position of our friends in Latin America, Asia and Africa. Therefore, we insist that any reductions in rates between the United States and the Common Market countries would be applied on a non-discriminatory basis, that is, these other countries would share the access to the Common Market that the United States obtains.

It is also very important to maintain or even increase our agricultural outlets in Western Europe. One of the serious problems of international economics for the United States is the lack of markets for our large agricultural surpluses, induced by the rising technology in relation to demand. Western Europe has been a very important market for our agricultural products, some of them competitive and some non-competitive. The Government estimates that 60 per cent of our rice, 49 per cent of our cotton, 45 per cent of our wheat, and 42 per cent of our soy bean production are exported.

> Our farmers are particularly dependent upon the markets of Western Europe. Our agricultural trade with that area is four to one in our favor. We shall need flexible authority if we are to keep the door of the Common Market open to American agriculture, and even to expand our markets in that area.

Ever since the time of Adam Smith it has been argued that one of the great advantages of foreign trade is that it makes goods available that otherwise would not be available. In his trade message, the President did not fail to make this point. In fact, he went further and suggested that about 60 per cent of the goods we import do not compete with the goods we produce, either because they

are not produced here or they are produced in very small quantities here. "They provide us with products we need but cannot efficiently make or grow (such as bananas or coffee), [and] supplement our own steadily depleting natural resources of items not available here in quantity, such as manganese or chrome ore."

In a bill proposed by the President he asked for general authority to reduce existing tariffs by 50 per cent. It would take five years to reduce tariffs as much as 50 per cent. This is a much larger rate of decline than is available under the Reciprocal Trade Agreements. The President also asked for special authority to eliminate tariffs completely on products in which the United States and the E.E.C. together account for 80 per cent of world trade in a representative period. The theory is that these are products in which either the United States or the E.E.C. has very strong advantages against one another or against the world, and therefore it would help everyone if the E.E.C. could concentrate on the products in which it has these large advantages and the United States could take similar action.

> These products account for nearly 2 billion dollars of our total industrial exports to present and prospective Common Market members in 1960 and about one and four tenths billion of our imports from these countries.
>
> . . . But the traditional technique of trading one brick at a time off our respective tariff walls will not suffice to assure American farm and factory exports the kind of access to the European market, which they must have if trade between the two Atlantic markets is to expand. We must talk instead in terms of trading whole layers at a time in exchange for other layers, as the Europeans have been doing in reducing their internal tariffs, permitting the forces of competition to set new trade patterns.

INJURY TO INDUSTRY?

The President was also concerned over the possibility that large reductions in tariffs may cause serious harm to American industry. He would therefore retain the escape clause. But he would also revise the escape clause. In recent years the Congress has modified the escape clause in such a manner that injury is often assumed even though the industry may be gaining substantial increases in employment and profit. It may only be necessary that its share of the market decline in order to assure protection under the escape clause. The President rules out this kind of unjustifiable use of the escape clause. He also is determined to protect American industry by the use of the peril point provision if required:

> The Tariff Commission will conduct hearings to determine the effect of concessions on these products; the Commission will make a report to the President, specifically based, as such reports are based now, upon its findings of how new imports might lead to the idling of productive facilities, the inability of domestic producers to operate at a profit and the unemployment of workers as the result of anticipated reductions in duties. . . .

But still concerned over the possibility that serious damage may be done to employers and workers, the President is also prepared to introduce a trade adjustment assistance program which would provide, for example, the retraining of workers and a large increase of unemployment benefits when a change in tariff policy brings about serious losses for the workers. The President would even provide financial assistance for moving workers to different places where suitable employment is available. For businessmen and farmers adversely affected, he would provide technical assistance, advice and consultation, tax benefits to encourage modernization and diversification, loan guarantees and loans not commercially available to aid modernization and diversification. He takes pains to point out that this is not really a subsidy but is the kind of help that affords "time for American initiative, American adaptability, and American resiliency to assert themselves."

In summary, this seems like a revolutionary trade program which deserves the support of the American public. The President has shown much audacity in abandoning the Reciprocal Trade Agreement approach and proposing a much more advanced method of dealing with the problem of trade.

Here are a few aspects of this trade program which require some emphasis:

1. The attention given to the new trade policy by the Ways and Means Committee means less attention to other programs such as medicare. Perhaps in pushing the trade policy, the President recognizes the difficulties of getting medicare through in 1962.

2. The new trade program is one for increasing *both* exports and imports and hence one for increasing income and growth. On the basis of past experience in negotiating, we shall be fortunate indeed to increase our exports as much as imports through these new trade policies.

3. What is required for raising the excess of exports over imports is rising productivity, reasonable price and wage policies, export drives, all measures being taken or urged.

4. Another relevant factor is the continued growth of Western Europe and Japan. Both our penetration of these rich markets and the continued unshackling of trade barriers in the Common Market could seriously suffer from a slow rate of growth or depression.

5. The President rightly points out that increased trade with the Common Market would reduce our excessive exports of capital which contribute to deficits in the dollar account. Here appropriate tax policy (no special favors for capital invested abroad) would be helpful.

6. A strong case can be made for Europe reducing her trade barriers more than we do (hence raising the United States exports vis-à-vis imports) in a period of dollar saturation and loss of reserves here—just as in the period of dollar shortages Europeans increased their restrictions while we reduced ours.

Finally, the President's message of January 25, 1962, on trade policy was another of his great state papers. But I regret one statement that might mislead and that somehow escaped the red pencil of his advisors.

> . . . Several hundred times as many workers owe their jobs directly or indirectly to exports as are in the small group—estimated to be less than one-half of one per cent of all workers—who might be adversely affected by a sharp increase in imports.

Why should the comparison not be between the jobs involved (say) in \$2 billion of additional exports (gains of jobs) and \$2 billion of additional imports (loss of jobs) resulting from the new trade pacts? Actually the object of more trade is not more jobs but more income.

The President's trade program so far has had unexpectedly strong support, much more than could have been anticipated, especially in view of the protectionist trends of the Congress since the end of the war. I only regret that so much emphasis has been put on employment, for after all, the easiest way to increase employment is to be as inefficient as possible, and the way to be inefficient is to shut off foreign competition. The case for tariff reduction has not generally been put in terms of the amount of employment that it yields, but rather insofar as it contributes toward rising income, greater availability of goods and therefore growth.

Indeed, Lord Keynes, at one time, supported a program of tariffs as a means of increasing employment. But this was a temporary situation, with the British very much disturbed by losses of gold reserves, which required treatment through reduction in the supply of money, and therefore less employment and less output. In this kind of situation a rise in exports or a reduction in imports may well bring an increase in employment. But you will note that in this paper I would argue against the official statement of the Government that an increase of employment is a likely important result

(*Continued on page 116*)

Chairman of the Harvard Department of Economics, **Seymour E. Harris** has been a member of the faculty since 1922. He is the editor of *The Review of Economics and Statistics* and author of 25 books on economics. His latest book, published in May, 1962, is *The Economics of the Political Parties* (Macmillan). He has served as a consultant to government agencies many times.

Discussing United States–Canadian trade and economic relations, this specialist points out that a common market plan for these North American countries would face many obstacles because ". . . the United States naturally and necessarily is the senior partner. . . ." However, even those Canadians who oppose closer ties with the United States for fear of losing their "political and cultural autonomy" would not "be willing to pay the economic price of reversing the current trend towards the integration of the North American economy."

United States Trade with Canada

By S. F. Kaliski

Assistant Professor of Economics, Carleton University, Canada

The absence of formal bilateral trade arrangements between Canada and the United States might cause one to forget how closely the two countries' economies are integrated. At least, one might forget if one is an American. Canadians have lately had plenty of reminders, and tend to be all too aware of this fact.

But, whatever one's attitude towards it, the fact is beyond question. It is a platitude to say that the United States and Canada are one another's best customers. The statement is true, but misleading. The relations between the two countries are both closer and less symmetrical than that.

The United States is certainly by far Canada's largest foreign customer and supplier. If one looks at commodity trade alone, some 55 per cent to 60 per cent of Canada's exports have in recent years gone to the United States; two-thirds or more of Canada's imports have come from that country.

By comparison, in 1960 Belgium–Luxemburg conducted half its trade, as measured by either imports or exports, with *all* its E.E.C. partners together. The other E.E.C. countries all traded with their partners to a lesser extent. Collectively, the E.E.C. countries conducted only one-third their trade with one another.

Canada's second most important trading partner is the United Kingdom. But that country takes only some 15 per cent of Canada's exports and supplies only about 10 per cent of her imports.

Canada, in turn, is the United States' most important trading partner, but her relative importance in United States trade is far less. She accounts for only some 20 per cent of American imports and exports.

This impression of powerful trading connections between Canada and the United States is confirmed if one looks at all of the two countries' international transactions, including travel, payments for use of capital, and the provision of various services, as well as commodity trade. Some 60 per cent of Canada's total current foreign receipts again come from the United States and some two-thirds of her current foreign payments go to that country. For the United States, too, the commodity trade ratio of about one-fifth of Canadian to total receipts and payments remains virtually unchanged.

If one recalls that Americans sell only about 5 per cent of their Gross National Product abroad, whereas Canadians so sell about 20 per cent of theirs, one begins to understand why Canadian-American trade is a much livelier issue in Canada than in

the United States. More than 10 per cent of Canadian production depends directly on sales in the United States whereas less than 1 per cent of the United States production depends directly on sales to Canada.

But this is only the beginning of an understanding, because the international exchange of goods and services is only the beginning of the close and complex ties binding the economies of the two countries. Persons and capital, too, flow readily from each country to the other. The substantial and relatively unimpeded flow of both migrants and non-migrants across the international border is too remote from the principal concern of this paper to be explored here. The capital flow, however, is right at the center of that concern and needs to be examined.

U.S. CAPITAL FLOWS TO CANADA

Net private United States investment abroad in 1960 and in 1961 amounted to nearly $4 billion. For the two years together, some $1.7 billion of this, or over 22 per cent of the total, went to Canada. A slightly larger fraction of United States direct investment—roughly speaking, that investment with which the owner acquires an entire business rather than shares or bonds—was directed to Canada. During the same two years, foreigners invested some $4.7 billion in the United States. Over $440 million of this sum, or nearly 10 per cent, came from Canada. Of a total of some $6.6 billion direct foreign investment in the United States at the end of 1959 nearly $1.9 billion, or nearly 30 per cent, was owned by Canadians. Only the residents of the United Kingdom accounted for a larger share of the total.

Looking at the same flows[1] from the Canadian side, Canada increased her gross indebtedness to foreigners by some $1.9 billion in 1960 and by about $9.8 billion during the five years from the end of 1955 to the end of 1960. Over 60 per cent of the 1960 increase and over 70 per cent of the five year total came from the United States. Of a total gross foreign indebtedness of $24.6 billion at the end of 1960 $18.1 billion or nearly three-quarters was to the United States.

Over the same five year period, Canadians loaned abroad $1.9 billion. Of this $1.4 billion or nearly three-quarters went to the United States. More than half of the $7.1 billion which Canadians had invested abroad at the end of 1960 was in the United States.

The extent to which American capital and enterprise participate in Canadian economic life, however, is only very imperfectly reflected by these figures of over-all investment. American investors, more than those from Britain and other countries, have tended towards direct investment. They have tended, that is, to establish or acquire, and to control whole enterprises, rather than to purchase securities issued by Canadian governments, municipalities and corporations.

As a result, more than a quarter of the total capital invested in industry and merchandising in Canada is owned and controlled by American investors. The American enterprises are concentrated in manufacturing, where they control some 45 per cent of the total capital invested; in mining, where they control more than half of it; and in gas and petroleum, where they control some 70 per cent. They are unimportant in the utilities and in areas outside industry and commerce, such as agriculture and housing.

It is probable that these numerous personal and corporate links between those making investment and production decisions in the United States and in Canada have done more to unite the two economies than even the trade links between them. At any rate, students of cyclical fluctuations in the level of economic activity, for instance, are unanimous that for their purposes the relevant concept is that of a North American[2] economy.

[1] The various figures cited here are not entirely consistent, e.g., the American figures are from the Balance of Payments, the Canadian, from Balance of International Indebtedness, and some of the stock figures given later are again somewhat different. None of these discrepancies matter so far as the broad picture is concerned.

[2] North America is throughout this paper used as a short, if rather inaccurate, expression for Canada and the United States together.

They find Canada and the United States going through the same phases of the cycle at the same time. The recessions are not always equally deep in the two countries and the booms are not always equally strong. But their timing coincides perfectly. Moreover, the same individual activities tend to lead others or lag behind them in the two countries. The cycle analysts are unanimous that such similarity of patterns provides evidence that trade is not the principal link between the two economies.

But the links between business are still not a sufficient explanation. American business men do not seem to run their operations in Latin America, or Europe, for instance, as part of the home firm to the same extent as they do their Canadian operations. Why the difference? Partly it has to do with the industrial and geographic characteristics of the operations, which will be explored further.

But partly it has to do simply with the environmental conditions of business. The firm on both sides of the border is quite likely to negotiate with the same international union, having to some extent at least the same objectives and aspirations. On both sides of the border, too, its customers are likely to be subject to the same influences. They read many of the same books, magazines, and technical journals. They view the same or similar television programs and listen to the same radio programs, often from the same stations. In short, to some extent, their economies are integrated because their cultures are similar. It would take us too far afield to inquire, as Professor Viner[3] does, why the shared aspects of these cultures are largely American rather than Canadian.

This cultural similarity, however, though it might ultimately prove the most important and most profound part of the explanation of the integration of the Canadian and American economies, is not all of this explanation. There is much that the economist, as such, can say about the matter. Much of the post-war expansion of United States investment in Canada and of the trade between the two countries was based on the complementarity of their resources. American firms required ever increasing amounts of pulp, newsprint, iron ore, non-ferrous metals, oil, gas, and other industrial materials. They could not always find cheap and convenient supplies of these materials within their country. They could frequently find them in Canada. They therefore proceeded to develop these Canadian supplies. American investment in and exports to Canada increased at once. Increased Canadian exports to the United States were the eventual object of the operation.

[3] Jacob Viner, *Canada and Its Giant Neighbour,* Alan B. Plaunt Memorial Lectures. Carleton University, Ottawa, 1958.

GOVERNMENT POLICY

So far the discussion has concentrated on the natural and human environment of United States–Canadian economic integration. But this integration took place within a political and legal framework as well, and this framework can no longer be ignored.

Indeed, the reader will no doubt be aware that these considerations have already been implicit in much of the preceding discussion. Geographic proximity, complementarity of resources, and cultural similarities will not, by themselves, cause flows of trade, information, people and capital between two countries, unless these countries' governments permit such flows. It is, indeed, this permissive aspect of government policy which has probably been most important in the relations between the two countries.

To put the matter somewhat more positively, prospective migrants and investors on both sides of the border could always be reasonably certain that they would find on the other side a stable and responsible political system not too unlike their own. They could be sure that they would not be subject to undue discrimination in favor of the natives or of other foreigners, or to sudden expulsion or expropriation. Simple and basic as such assurance seems, it is sufficiently unusual in international relations to be a very serious attraction for migrants and investors.

As was suggested at the outset, this tolerance was not extended by each country specifically to the citizens of the other. Rather it was part of the treatment extended to foreigners generally. This is not to deny, however, that those born in North America have been part of the larger group of privileged immigrants in both United States and Canadian legislation. Similarly, Canadian–United States taxation agreements were said on occasion to give Americans special incentive to invest in Canada.

Unlike immigrants and investors, Canadian and American exporters could not always be certain of welcome on the other side of the border. Again, this was not a matter of specific discrimination but rather of tariffs and other obstacles which the two countries put in the way of foreign goods generally. Indeed, the two countries have accorded one another most favoured nation treatment, though Canada treats her British Commonwealth partners even more favorably.

This is not the place to review the history of American and Canadian tariffs. The former has, in any case, been reviewed intensively in an earlier issue. But it is necessary to recall the chief characteristics of these obstacles to trade, as they are reflected in the economic ties between the two countries.

Generally speaking, both Canada and the United States have played a leading role in the several postwar rounds of multilateral G.A.T.T. tariff reductions. As a result, their tariffs are now lower than they have been for some time. There have been many complaints that the United States has used the "escape clause" and "national security" provisions of its trade legislation, and the quotas under its Agricultural Adjustment Act, together with the general unpredictability of its customs administration, partly to nullify these G.A.T.T. concessions. Fewer complaints have been received about Canada's behavior, possibly because it affects fewer people.

But, even apart from these cases of retraction, the tariffs of the two countries are neither uniform nor negligible. The United States admits free or at very low rates nearly all industrial raw materials and semi-manufactures. In general, rates increase with the degree to which the import is manufactured. Food imports and occasionally lead, zinc, and oil are subject to quota limitations. Oil from the Western Hemisphere is exempt.

The Canadian tariff is principally designed to protect domestic manufacturers of consumer goods. Raw materials and parts for assembly are generally admitted free or at low rates, as is much industrial machinery not made in Canada. In general, imports are taxed at much higher rates if similar goods are produced in Canada. Some agricultural imports are prohibited, restricted, or subject to seasonal tariffs. Agricultural machinery and implements and fertilizers are admitted free of duty by both the United States and Canada.

It is clear that these differential rates of duty and prohibitions must have an effect on the economic relations between the two countries. Thus, Canadian exports to the United States may consist so largely of raw materials, not only because of the nature of the two countries' resources, but also because manufactured goods often face a prohibitive tariff. There is no other reason, for instance, why Canada should export so much pulp and newsprint and so little fine paper. Other materials too, might perhaps economically be processed further before shipping, if it were not for the tariff. Similarly, the tariff might provide part of the explanation of why Canadian firms are able to supply North America with certain types of agricultural machinery, but with no other sort of machinery.

The Canadian tariff for its part provides the explanation for some of the flow of American investment into Canada. Investment in the resource industries can be explained without reference to the tariff. But the very heavy investment by American firms in the production of automobiles, electrical appliances, rubber goods, and other consumer durables in Canada can be explained only in terms of "jumping the tariff wall." Such an explanation is particularly necessary since

the manufacture of many of these products is subject to considerable economies of scale. The Canadian plants, being relatively small, often have much higher costs than the parent firm has in the United States. Clearly, in the absence of the Canadian tariff, it would be to the company's advantage to produce in the United States and export to Canada.

A COMMON MARKET?

One way to understand the impact of the two countries' tariffs on their economies is to examine the implications of removing these tariffs. Proposals for completing the process of economic integration by establishing a common market between Canada and the United States have recently been advanced by a few Canadians. They were suggested as a possible response to the emerging regionalism of Europe and other parts of the world. The idea does not seem to have been advanced in the United States[4] though somewhat similar suggestions for a Western Hemisphere Common Market have been.

It is most unlikely that a United States–Canadian Common Market is a practical possibility. But its implications are worth examining for the light they throw on the existing situation. It needs to be stressed, however, that there are no firm factual foundations for such an examination. What follows is highly speculative.

Such a common market would undoubtedly have the effect of diverting to its trading partner some of the trade which each country now does with others. This trade diversion may be quantitatively important in certain lines and is likely to have unfortunate political effects for the two countries. But it is very difficult to say much more about it. Probably the principal effect of the market would be to open up the possibility of rationalizing production in North America. It would no longer be necessary, in order to avoid the tariff, to process in the United States raw materials which might be more cheaply processed on site in Canada.

More important, it would no longer be necessary to manufacture goods on an uneconomically small scale for the Canadian market. The whole North American market would now be open to any manufacturer. Firms in all industries would be as free to specialize in providing certain types of goods for the whole area as the producers of agricultural machinery are today. Since Canadians are the principal sufferers from an uneconomic scale of production, they would probably gain the most from the increase in efficiency.

In principle, there is no reason to envisage any great shift of manufacturing from Canada to the United States, or *vice versa.* There are places in Canada which are as favorably situated with respect to both markets and raw materials of the continent as a whole as any in the United States. In practice, the fact that many firms operate plants in both countries and that their United States plants are larger and more efficient and may have excess capacity might cause some shift of industry to the United States. But this danger, from a Canadian point of view, is likely to be minimized if the common market is approached gradually.

In agriculture, a common market is likely to bring little change. Both countries would almost certainly wish to shield their farmers from competition and continue some sort of agricultural support program, possibly in cooperation. Even if they did not do so, there would likely be no startling increase in trade. Canadian and American agriculture are largely competitive rather than complementary.

In summary, the chief effect of a common market would probably be a more efficient organization of manufacturing on the North American continent, with Canadians the principal beneficiaries. The two economies would be drawn together even more closely in their trading and investment relations. In practice, the American and Canadian governments would probably find it necessary to work out more and more cooperative arrangements with respect to all aspects of their economic policy.

[4] It is not mentioned, for instance, in the recent Joint Economic Committee Hearings on Foreign Economic Policy.

In spite of the economic advantages which it might bring to both countries, it is unlikely that the common market is practical politics in either. It has not been mentioned in the United States which, understandably, has wider interests and probably stands to gain relatively little. It is unlikely to gain much popular support in Canada in spite of its possible economic benefits. In part, this is because some Canadians fear that a common market might result in a mass migration of secondary industry, and, with it, of employment opportunities and people to the United States. Even if this eventuality could be precluded by suitable initial arrangements, there is no doubt that the reorganization involved, no matter how worthwhile eventually, would be profound, and painful to Canadian industry.

But the real reason why many Canadians would oppose the scheme has nothing to do with its economic effects. The plain fact is that they would oppose any scheme which would lead to a closer integration with the United States. Indeed, many of them are uneasy about the degree of integration which has already taken place. Economic integration here has to be viewed in its total context of vast cultural exchange, of cooperation in continental defense, and of a political and military alliance in a very uncertain world. In all these arrangements, the United States naturally and necessarily is the senior partner, as she would be in a common market. Some Canadians fear that as a result of ever closer ties to the United States they will gradually lose their already limited power of independent action.

They fear, let it be said at once, not any aggressive intent on the part of Americans, but simply their power, wealth, and energy. What is at stake is not any formal loss of political sovereignty—most experts agree that the United States would not welcome a political union—but the preservation of a potential of distinct cultural development.[5]

Some Canadians feel, rightly or wrongly, that the preservation of a Canadian market, of east-west rather than north-south economic links, is an important or even an essential ingredient in preserving real political and cultural autonomy. Probably few of them would be willing to pay the economic price of reversing the current trend towards the integration of the North American economy. But even fewer would wish to accelerate that trend for economic advantages.

From the Canadian point of view then, some wider economic grouping, say a North Atlantic Economic Community composed of Europe, the United States and Canada, would have the economic advantages of a North American Common Market without its non-economic disadvantages. Such a regional market, too, has been proposed. It is probably unlikely to commend itself to the Europeans, to the United States or to those Canadians who are obsessed by the fear of an inherent inferiority of their own secondary industry. But the most fundamental objection to it is that put by Professor Johnson:

> The North Atlantic Economic Community would be a rich man's club and a white man's club, and even if it devoted a larger proportion of its riches to carrying the white man's burden its existence would be highly unpopular in the rest of the non-communist world. . . .[6]

What then should be North America's response to the emerging regionalism? In this writer's view, it should be that which seems to be embodied in President Kennedy's proposal now before Congress.[7] The European

(*Continued on page 116*)

[5] Hugh G. J. Aitken, *American Capital and Canadian Resources*, 1961, Ch. IV.

[6] Harry G. Johnson, "Canada in a Changing World," Alan B. Plaunt Memorial Lecture, Carleton University, February 17, 1962.

[7] H.R. 9900, "Trade Expansion Act of 1962." See also Current History, July 1962, p. 50.

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Although "It is too early to see just what kind of help the United States could give the Latin Americans in the West European market," it is possible that the United States might arrange to "negotiate with the Europeans not only on its own behalf but also for the Latin Americans. Latin American nations cannot successfully bargain individually with the European Common Market." ". . . As the world's largest trading nation, the United States is . . . in a better position to negotiate successfully."

Trade Policies in Latin America

By Robert J. Alexander
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Aid to the rapid economic development of Latin America has become a fundamental aspect of United States foreign policy. In this program we are seeking to bring about political stability and rising standards of living in the other republics of the hemisphere. However, there is serious danger that this policy will fail unless it is complemented by trade programs that will contribute to the economic growth of the area.

The United States has pledged that some $20 billion will be contributed toward Latin American economic development during the next ten years. The importance of trade problems can be seen from the fact that if Latin American foreign trade conditions are adverse during this decade, these countries may lose almost as much in export income as the United States provides them in loans and grants. Such a situation might be intensified by the problems arising from the moves towards economic unity in West Europe and Africa.

The economies of Latin America and the United States are closely intertwined. This country is the largest trading partner of all of the Latin American nations except Cuba. Latin America as a whole provides about one-quarter of this country's total imports and absorbs almost one-fifth of its exports. In 1960, Latin America provided $3,529,000,000 of the total of $14,654,000,000 worth of goods imported into the United States. In the same year, it received $3,455,000,000 of the total of $19,511,000,000 non-military exports from this country.

However, the total economic interdependence of the two parts of the hemisphere is not fully reflected even in these figures. The United States has about $10 billion invested in the other American republics, of which approximately four-fifths has come from private sources, the rest from the United States.

Furthermore, the United States depends very heavily on the Latin American countries for strategic raw materials and foodstuffs. It relies on copper, tin, iron, zinc and petroleum imports to supplement its own resources. It also draws most of its imports of coffee, sugar, bananas, hemp and a number of other tropical products from this area.

For its part, Latin America looks principally to the United States for aid in its economic development. Most Latin American governments have greeted eagerly the offer of the Kennedy administration to throw greatly increased resources behind the development efforts of the other American nations.

Needless to say, the political and military interdependence of the two regions is also exceedingly great. The strategic position of the United States would be fundamentally weak-

ened if any major group of Latin American countries should switch sides in the Cold War. On the other hand, if it were not for the power of the United States, none of the Latin American countries would be able to maintain its highly-cherished independence.

HEMISPHERE TRADE PROBLEMS

Latin America today seriously needs help from the United States to deal with its trade problems. At the same time, events in other parts of the world, of which we shall take due note, may well force the United States to rely even more heavily than it does at the present time upon its Latin American trading partner.

Almost all Latin American countries have grave structural weaknesses in their foreign trade. Basically, their weakness is that they depend for almost all of their foreign exchange upon the export of one or two or at most three raw materials or foodstuffs. Thus, almost all of Chile's exports consist of copper and nitrates; 90 per cent of Venezuela's exports consist of petroleum; more than half of Mexico's consist of cotton; about the same proportion of Brazil's exports consist of coffee, and half a dozen other Latin American countries depend on coffee to an even higher degree.

The Latin American countries have very little control over the markets and prices for their products. In the last half decade or more the tendency has been for these prices to fall, while at the same time the prices of manufactured goods which they bought in return for their exports continued to rise steadily.

These adverse conditions of trade in recent years have had a disastrous effect on the general economic situation of the Latin American countries. Economic growth of the area came almost to a halt, the per capita national income increase in 1960 amounting to only one per cent. A number of countries actually suffered a decline in national income per inhabitant. These facts go far to explain the increase in unrest and political problems in Latin America during recent years.

Both Latin America and the United States are faced with grave commercial problems as a result of the development of the European Common Market. The six European countries of France, Germany, Italy, Netherlands, Belgium and Luxembourg are entering the second stage of their program for developing complete economic unity. Together they will form a single trading unit as large as or larger than the United States.

COMMON MARKET THREAT

However, the full importance of the Common Market goes far beyond this, particularly for the countries of the Western Hemisphere. Much more serious than the present situation is what seems certain to develop in the near future. There are two items which will have a serious impact on the New World.

First there is the possible entrance of Great Britain into the Common Market. In July, 1961, it formally applied for admission, and negotiations are now proceeding concerning the conditions under which this can take place. With Britain, several other European countries, including Denmark, Norway, and perhaps Spain and Portugal, will also probably enter the E.E.C.

Second there is the special arrangement which has been worked out between the European members of the Common Market and their former colonies in Africa. These arrangements already hold for most of the former French colonies in West and Equatorial Africa and the former Italian dependency of Somalia. If Britain should enter the Common Market, a number of its present and past colonies would probably be included also in these same accords.

These African territories have been accorded the status of Associate Members of the Common Market. This means that the African countries are given free entry for their products into the European Common Market, but at the same time are permitted to maintain their tariffs and other barriers against import of goods from the Market, in order to continue their own programs for economic development and industrialization.

The Common Market will thus present major problems to both parts of the Western

Hemisphere. The United States undoubtedly will find that the European countries will increasingly buy from among themselves many of the products which they have traditionally purchased in the United States. At the same time, the Latin Americans will find that African countries which produce the same kinds of raw materials and foodstuffs which they do—coffee, cacao, sugar, tin, iron, petroleum, to name but a few—will be given preference over them in the huge and growing European market. The Latin American countries producing grains, wool and meat may even find that the countries of the Common Market, or those parts of the British Commonwealth which are given the status of Associate Members, will be in a privileged position to provide these products to the European markets which have traditionally purchased them from Argentina, Uruguay, Brazil and other Latin American nations.

Finally, there is one other Eurafrican development that may have critical results for Latin America. This is the opening up in North Africa of vast new sources of petroleum. The French have discovered huge quantities of oil in Algeria. The French right to use this reserve is assured by the recent peace agreement between the two countries. In Libya, some of the world's most productive oil reserves have been discovered close to the Mediterranean Sea, reducing to a minimum the transportation costs necessary to get oil to European markets.

LATIN AMERICAN COUNTER MOVES

The evolution of the European Common Market has been a major factor in bringing about one major commercial development in Latin America, and may have made a major contribution to a second development. These two events are the Latin American Free Trade Area and the Central American Common Market.

The Latin American Free Trade Area has been established by Argentina, Uruguay, Brazil, Chile, Peru, Ecuador, Colombia, Paraguay and Mexico. This is not an attempt to establish a customs union such as the European Common Market. Although it is hoped that all trade barriers will be eliminated among the members of the group, no attempt is foreseen to create a common set of trade obstructions with the outside world.

It is hoped that the reduction of trade barriers among the members of the L.A. F.T.A. will be accomplished in a period of 12 years through a series of annual negotiations, on a bilateral and multilateral basis.

The objectives of the L.A.F.T.A. are varied. On the one hand, it is intended to stimulate trade among the partners in the Latin American Free Trade Area. Second, it is hoped that the members of the group can plan their own development, so that their economies can become increasingly complementary instead of competitive.

Finally, those who have planned the L.A.F.T.A. and have brought it to fruition have hoped that through it the Latin Americans could generate a greater degree of joint bargaining power with the European Common Market than any of them could separately. However, this will probably be difficult as long as the members of the L.A.F.T.A. do not have a common tariff barrier.

The second Latin American move has been the attempt to form a single trading bloc in Central America. Guatemala, El Salvador, Honduras and Nicaragua have established the Central American Common Market, and it is hoped that Costa Rica, and perhaps even Panama, may be brought to join.

Even more than the L.A.F.T.A. the Central American Common Market is intended to be used for planning the economic development of the area involved. The four countries have agreed to decide among themselves on the site of new industries. They have also apportioned among their respective universities the various educational tasks of economic development. For the purpose of aiding this process, the partners have established the Central American Development Bank, which has received a loan of $10 million from the United States government.

The United States has given extensive support to both these attempts at economic integration among the other American republics. It has extended economic and political sup-

port to the Central American project; President Kennedy has endorsed the Latin American Free Trade Area as an integral part of the Alliance for Progress effort to build up the economies of the Latin American countries.

However, although some observers in both the United States and Latin America are very sanguine about the prospects of the L.A.F.T.A. and Central American Common Market, there are others in both parts of the hemisphere who are convinced that they are inadequate. It is widely felt that some further effort on a hemisphere-wide basis will be necessary in order to come to grips with the changing patterns of world trade.

The fact is that if Britain and the countries associated with her enter the European Common Market, about half of the trade of the non-Communist world will take place within the European Common Market. The Western Hemisphere will be almost completely left out. There is room for argument that the countries of America must get together on some common approach to this problem.

There are two joint approaches to the problem, which are not necessarily mutually exclusive. There are international arrangements for stabilizing raw material and foodstuff prices, or some possible kind of Free Trade Area or Common Market for all the republics of the Western Hemisphere.

The idea of establishing multilateral means of stabilizing world mineral and agricultural prices is now part of declared United States policy. However, relatively few steps have so far been taken to put this policy into practice. At the present moment, the principal example of this kind of arrangement is the international coffee agreement. All the Latin American and African producers of the bean, as well as the United States and several leading European consuming countries, are part of this accord. It establishes quotas for the various participating countries in the world market. However, it does not provide for control of production, and thus is under the constant menace of dumping from countries which are producing more than they are able to offer on the world market.

Although such agreements could probably be worked out for a number of other products, they are by no means the complete answer to the trade problems faced by the Western Hemisphere. Specifically, they do not deal adequately with the growing competition of African raw material and food producers; nor do such agreements deal with the tendency of members of the European Common Market to substitute home-made products for those they have hitherto bought from the United States.

THE HEMISPHERE COMMON MARKET

There is some sentiment in this country, therefore, for the establishment of a Western Hemisphere Common Market. The Americas account for about one-quarter of all the world's exports and about one-fifth of all of its imports. This would seemingly give a solid basis for any such project. However, mere statistics tell only a small part of the story.

There are economic and political obstacles to the establishment of a Western Hemisphere Common Market. At the moment, these seem virtually insuperable.

A Common Market necessarily provides that all partner nations will eliminate tariff and other trade barriers among themselves. However, given the present circumstances of Latin America, such an arrangement is inconceivable. The Latin American countries are determined to bring about as rapid economic development and the great growth of as many manufacturing industries as possible within their borders. They are convinced that in order to industrialize, they must protect their new manufacturing enterprises—and principally, they must protect them against real or potential competition from the United States. It is virtually inconceivable that they will agree in the foreseeable future to abolish these trade barriers.

From their point of view, the Latin Americans are correct. Because of their relatively low level of labor productivity, their lack of "external economies" such as adequate transportation, electricity and housing, many new industries in the Latin republics of the hem-

isphere cannot hope to compete with United States and European imports for some time to come.

This issue is less pressing in the case of the United States. There are a relatively small number of United States industries which feel the need for protection against Latin American imports. Among these are part of the oil industry, coal mining, some minerals such as copper, lead and zinc, and a few branches of agriculture and grazing, such as the wool trade. However, industries in this country that depend for a sizeable part of their prosperity on exports to Latin America are much more important in the general United States economy.

POLITICAL FEAR

Another factor militating against the establishment of a Western Hemisphere Common Market is Latin America's political fear of the United States. One of the motives for the establishment of the Latin American Free Trade Area was undoubtedly the hope that it would strengthen the bargaining power of the Latin American countries vis-a-vis the United States.

It will probably be some time before pressure from the European Common Market becomes great enough to make urgent the possibility of establishing an American Market. Whenever this happens, special arrangements will undoubtedly be needed to make it feasible. Something like the arrangement that the European Powers have made with their former African colonies will undoubtedly be necessary. For any American commercial bloc, the United States (and Canada, should it enter the bloc), will have to agree to allow free importation of Latin American raw materials and foodstuffs, while at the same time agreeing to allow the Latin Americans to continue for an indefinite time to bar the entry within their borders of appreciable quantities of United States (and Canadian) manufactured products.

Such an arrangement would help meet the problems that face the Western Hemisphere in the sphere of international trade. An increase in imports of Latin American goods would offset in part at least the losses that they may expect to endure in their European markets. Furthermore, an American Common Market would give all the republics of the hemisphere a better bargaining position in dealing with the European Common Market and other trading blocs.

President Kennedy has already put forward a program designed to improve the bargaining position of this country with the new European bloc. He has asked Congress for much broader powers to bargain with our trading partners for mutual reduction of trade barriers.

This program raises one other important possibility that the United States might negotiate with the Europeans not only on its own behalf but also for the Latin Americans. Certainly the Latin American nations cannot successfully bargain individually with the European Common Market. Even the Latin American Free Trade Area—which is not really a consolidated trading area that can negotiate on behalf of all of its members—cannot put them in a much more advantageous position to bargain as a group.

It is too early to see just what kind of help the United States could give the Latin Americans in the West European market. However, as the world's single largest trading nation, the United States is certainly in a better position to negotiate successfully.

CONCLUSION

Thus, the possibility of developing a healthy economy in the whole Western Hemisphere depends to a considerable degree on its ability to meet increasingly difficult trade problems. These problems are being intensified by the emergence of the European Com-

(*Continued on page 116*)

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"The United States and other industrialized countries should regard their trade policies affecting the export markets of less-developed countries as being equally if not more important to the economic development and welfare of these countries than the provision of economic assistance," writes this observer, who maintains that "unless steps are taken to permit a broadening of world markets for products of less-developed countries, foreign aid will be wasted. . . ."

Trade Policies for the Non-Aligned Nations

By Robert Loring Allen
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Exports of less-developed countries are sensitive to the trade policies of the United States and other industrial countries. Since most of the exports are primary products which are processed and consumed in industrial countries, protective and revenue tariffs, quotas and other trade barriers depress the level of exports of less-developed countries. In recent years exports of primary commodities have been increasingly insufficient to pay for the imports required for an adequate rate of economic development.

Industrial countries protect their processing and manufacturing industries also, thus further damaging the industrialization prospects of less-developed countries. Higher tariffs against processed materials than against unprocessed materials and quotas against manufactured goods in effect prevent less-developed countries from establishing any kind of industry which cannot be supported by their domestic market alone. Economic development prospects for less-developed countries depend vitally upon modification in the trade policies of the United States and other industrial countries.

In 1961, exports of less-developed countries were about $27 billion, representing only 21 per cent of total world exports. Nearly three-fourths of these exports went to Western Europe, North Ameria and Oceania. These areas were also the origin of about three-fourths of the imports into less-developed countries. Nearly 90 per cent of the exports of less-developed countries are primary commodities and almost two-thirds of their imports are manufactured goods.

Between 1928 and 1955–1957 world manufacturing production rose two and one-half times and world primary commodity production doubled. The volume of trade in primary commodities, however, rose by less than one-third. Excluding petroleum exports, the exports of primary commodities from primary producing countries increased by less than one-fourth over the last three decades. Export prices of primary products over the last 30 years have increased only slightly relative to export prices of manufactured goods and in the last few years the terms of trade of primary producers has deteriorated.

On the other hand, the volume of imports of primary producing countries has increased by more than 90 per cent in the last three decades, at a rate almost four times faster

than the rate of increase of exports. In 1928, primary producing countries had a $1.3 billion merchandise trade surplus representing 9 per cent of exports. By 1955–1957 the surplus had changed to a deficit of $1.6 billion even after taking into account the $1.3 billion trade surplus of petroleum exporters. The increasing gap between imports and exports during the postwar period for less-developed countries has been financed by liquidation of reserves and by loans and grants from industrial countries.

During the last three decades, the trading position of less-developed countries has deteriorated seriously. Exports have followed one trend line, a slow growing one. Imports have followed another trend, increasing more rapidly than exports. Price movements have not offset the volume changes. Less-developed countries now face an annual deficit of significant proportions, as well as the prospect of increasing deficits. Capital movements have until now permitted these countries to finance their growing import surpluses but obviously the gap between the growth of exports and the expansion of imports cannot continue indefinitely.

DETERMINANTS OF TRADE

Expansion of exports of primary products from less-developed countries depends upon growth in industrial countries, changing composition of consumption, changes in technology, and trade policies in industrial countries. While industrial countries in general have maintained high levels of economic growth, the pattern of consumption has been changing adversely to less-developed countries. As incomes in industrial countries increase, components of the budget shift. At low income levels most of the budget is spent on food and basic living requirements. As incomes increase, new items, such as consumer durables, luxury foods, and services, enter the budget. Amounts spent on primary commodities increase but relatively these products lose ground. This relative shift in expenditures has been conspicuous during the past several decades in the United States and in the postwar period many West European countries have also become high-consumption economies.

Technological change probably also has had a detrimental effect on the market for primary commodities by economizing on the use of raw materials. More complicated and highly-fabricated products are introduced as incomes rise and these new products contain a relatively smaller value of raw materials. The most spectacular kind of change affecting raw material requirements has been the development of synthetic materials. Synthetic textile fabrics and shifting consumption patterns have made deep inroads into cotton and wool trade. Between 1927–1929 and 1955–1957, per capita consumption of textile fibers in the United States declined by one-fourth and in Western Europe by almost one-fifth. Synthetic rubber has prevented any increase in per capita consumption of natural rubber in the last three decades.

Trade policies of industrial countries have a decisive impact on the exports of primary products by less-developed countries. By protecting and subsidizing domestic production of primary commodities industrial countries shrink the markets available to less-developed countries and also stimulate domestic production at higher costs. Over the postwar period industrial countries have generally become more self-sufficient in primary products.

Protection is particularly high for products which industrial countries also produce, such as temperate-zone agricultural products. Imports of these products from less-developed countries have declined substantially in recent decades. For example, in 1938 Western Europe and North America imported 11 per cent of their wheat, corn, rice, butter, sugar, and meat from outside the area. In 1956 the net import figure was 4 per cent and North America's net export position improved substantially during the period.

The United States, through price supports, heavily subsidizes some of its agricultural sector. One result has been the accumulation of large stocks of such products as wheat and cotton which are marketed at world prices but under conditions which represent a real

concession to the buyer. United States domestic production and exports are thus maintained at a level above that which would be justified by the market. Less-developed countries, however, have often benefitted to some extent through the favorable terms on which these products have been made available to them.

Many of the industrial countries also protect their minerals industries. The United States has a tariff of 1.7¢ per pound on unmanufactured copper and in 1958 introduced quotas on lead and zinc. The quotas are temporary and the Administration appears to be opposed to their extension. In 1961, Congress enacted a four-year subsidy program for lead and zinc. The effect of the United States restrictions, whether quotas, tariffs, or domestic subsidies, is to reduce imports. In petroleum the United States has for a number of years imposed import restrictions. A voluntary quota was superseded by a mandatory quota in 1959. Without doubt the oil quota diminishes the volume of United States imports.

Industrial countries maintain substantial barriers against semi-processed and processed goods at the present time. For example, many European countries do not have any barriers against cocoa beans and those which do have only a minimal rate. On the other hand, there are much higher barriers against cocoa powder, paste, and butter. A similar differential between the tariffs on raw and processed materials exists for many primary products. These restrictions have the effect of preventing the exporter of the primary product from processing his own material.

The United States and Western Europe also impose high tariffs and quotas on manufactures. In most cases restrictions are sufficiently restrictive to exclude goods from less-developed countries. These countries are inexperienced in the production of manufactured goods and customarily operate on a small scale because of the limited size of their own markets. Limited amounts of capital equipment also inhibit productivity. Thus, less-developed countries tend to be high-cost producers, despite low wage rates.

In textiles, where some less-developed countries have made some headway, quotas and "voluntary" agreements limit exports to industrial countries. The new textile agreements negotiated under the auspices of the General Agreement on Tariffs and Trade are designed to promote textile exports of less-developed countries, within a framework of an international quota system.

The inability to export manufactured goods to industrial countries means that manufacturing industries in less-developed countries must remain small in size, only large enough to supply domestic markets, even if protected with tariffs of their own. In many manufacturing industries less-developed countries simply cannot get a start because of trade restrictions of industrial countries.

TRADE AND DEVELOPMENT PROSPECTS

Over the past three decades the less-developed countries have been subjected to a steady deterioration in their trade position, having moved from a position of a substantial surplus to a substantial deficit on the trade account, amounting to $3 to $4 billion per year at the present time. The deficit is now covered by capital transfers. The question arises as to what is going to happen in the future. This question has been examined by the secretariats of the Economic Commission for Europe and the Economic Commission for Latin America, the General Agreement on Tariffs and Trade, and by private research organizations. There are differences in the quantitative estimates but unanimity on the general character of the trend. If the less-developed countries develop economically at a rate consistent with economic and political stability, imports will continue to grow at a faster rate than exports and an ever-increasing trade deficit will be generated.

The secretariat of the Economic Commission for Europe estimated that in 1980 the import demand of less-developed countries will be about $60 billion per year if the latter are to achieve per capita growth of three per cent per year. Less-developed countries during the 1950's, however, had a per capita rate of growth of at most 1.8 per cent per year.

On the other hand, per capita growth of 2 to 3 per cent per year generally is regarded as the minimum acceptable rate of growth for less-developed countries. Industrial countries over recent decades have grown faster than 3 per cent per year per capita. Anything significantly less than this figure would imply a continuing widening of the gap between less-developed and advanced countries.

If the estimates of the E.C.E. secretariat are accepted, then the question becomes: how can imports of $60 billion per year in 1980 be financed? There are only three ways: (1) export proceeds, (2) net capital transfers from outside the less-developed countries, (3) liquidation of reserves. The last can be easily dismissed. The whole foreign exchange holdings of the less-developed countries in 1961 were less than $10 billion. Even this amount is probably too low in relation to imports.

There is no way to forecast what capital transfers will be in 1980. Much depends upon political and economic conditions at the time. The E.C.E. secretariat assumes that net capital imports will increase in the same ratio as imports or $9.3 billion per year in 1980. It is unlikely that industrial countries will provide net capital resources of that magnitude. Even accepting this optimistic estimate, however, one is left with at least $50 billion to be financed by exports.

If $19 billion is taken as a present exports average (1957–1959), excluding petroleum exports, then to finance the entire residual by export proceeds would imply an increase of two and one-half times over the next two decades. Exports of these less-developed countries, excluding petroleum exporters, have increased by only 23 per cent in the past 30 years.

Western Europe, the United States, and Japan are the largest consumers, taking about $12 billion in primary commodities from less-developed countries. Even on the basis of optimistic assumptions with respect to markets in the industrial countries, it is improbable that exports of primary products could increase by more than three-fourths over the next 20 years. The rationale for this estimate is the rate of growth of industrial countries and a favorable estimate of the ratio of primary product imports to domestic products. Exports of primary products into industrial countries will probably not exceed $20 billion per year in 1980.

Exports to the Soviet area are unpredictable. At the present time, trade of the Soviet Union and Eastern Europe with less-developed countries is slightly in excess of $800 million each way. An optimistic estimate of 1980 exports of less-developed countries to the Soviet area would be about $3 billion a year, assuming the Soviet area diminishes the degree of autarky and increases imports of food and beverage crops. There is no reason to believe, however, that the Soviet Union intends to change its policy of autarky.

Exports to other less-developed countries represent less than one-fourth of total exports of those countries, less than $5 billion at present. Although trade among less-developed countries has been increasing somewhat more rapidly than exports generally, an estimate of $10 to $12 million per year in 1980 would be highly optimistic. This implies that such trade would increase almost twice as fast as commodity exports to industrial countries.

The final accounting then, excluding trade in manufactures, would leave approximately $15 billion to be financed, nearly one-fourth of the entire import bill. The share of manufactures in total exports with less-developed countries is now about 8 per cent. If exports of manufactures are to make up the gap envisaged above, the proportion of manufactures to total exports in 1980 would have to be of the order of 30 to 35 per cent.

IMPACT OF CHANGES IN TRADE POLICY

A diminution in the protection and subsidization of agricultural production by industrial countries would have a significant impact upon exports of these products by primary producing countries. Relatively small changes in domestic production in industrial countries can have a large impact on imports. For example, if in 1956 consumption of foodstuffs in industrial countries had remained the same but production had been one per cent lower

and the deficit imported, the increase in net imports would have been almost 25 per cent.

The principal beneficiaries of a reduction in agricultural protection, however, are frequently the high-income primary producing countries, not less-developed countries. Australia and New Zealand, for example, would benefit greatly. Some less-developed countries, however, exporters of cotton, tobacco and sugar, for example, would benefit directly from easing these restrictions.

The indirect benefits of an increase in exports of even high-income primary producers are frequently overlooked. With larger exports these countries will import more, partly from industrial countries and partly from less-developed countries. Industrial and less-developed countries alike, upon expansion of their exports, will import still more from other industrial and less-developed countries. Thus, by a series of rounds of trade expansion generated initially by increases in exports of high-income primary producing countries, trade would be enlarged. The indirect effects eventually will dwindle away but not until they have lifted trade generally, including exports of less-developed countries, to a higher plateau.

The elimination of restrictions on trade in primary commodities would probably result in a significant increase in exports from the less-developed to industrial countries. The market share of less-developed countries would increase for a considerable period of time. Eventually, however, the basic primary product export trend, determined by the nature of demand, would reassert itself. The level of exports with less-developed countries in the meantime would have been raised substantially above the present level.

The estimates of demand of the industrial countries given earlier have taken into account some liberalization of commodity trade restrictions. An increase in exports of the less-developed to industrial countries of $12 billion to $20 billion over the next 20 years is not consistent with the present level of restrictions. An elimination of restrictions, however, would probably permit an even greater expansion of exports of less-developed countries and would help to reduce the potential deficit faced by these countries 20 years from now.

Further processing of their own commodities and exporting processed goods rather than raw materials would be a prime benefit of a relaxation of trade barriers by industrial countries. There are great potential gains to less-developed countries from this elementary manufacturing. More value is added in the country and hence exports command a higher price, adding to foreign exchange earnings. There are, however, added costs in processing. High capital and other costs, locational factors, and inability to use by-products sometimes limit the extent to which less-developed countries can advantageously process raw materials.

The demand prospects for processed materials are only slightly better than the demand for raw materials. Exports of processed materials tend to follow the same trend as primary commodities, after the once-and-for-all upward adjustment has been accomplished. As in the case of agricultural and commodity specialization, industrialization concentrated solely in these lines would probably not close the prospective foreign exchange gap. Even so, the import capacity of less-developed countries would probably be enhanced by between 10 and 20 per cent if they processed their own raw materials.

A reduction or elimination of trade barriers against manufactured goods from less-developed countries would substantially assist these countries in covering their prospective trade deficit. The amounts of manufactured goods would be small in relation to the manufactured goods of industrial countries but large compared to present manufacturing production in less-developed countries.

Except in a few lines, the impact on industrial countries of an elimination of trade barriers against manufactures would probably not be significant for several years. At present most less-developed countries are not in a position to produce and export manufactures on a large scale. Indeed, their development programs have been moving in the opposite direction, toward displacement of manufac-

tured goods in domestic markets from industrial countries to local producers. Time would be required to achieve efficient production in new plants and for establishing marketing outlets for new manufacturing production. It would also take time for less-developed countries to become convinced that a change of plans was warranted by trade policy changes in industrial countries. Much would also depend upon the method of reducing tariffs. If trade barriers were reduced on a non-discriminatory basis, it is possible that industrial countries, which are now the low-cost producers of manufactured goods, for a long period of time would capture the newly-opened markets.

An impact would probably soon be felt in textiles, in which some less-developed countries have already begun to establish themselves. Canned goods, leather and rubber products, and light manufactures are other items which less-developed countries might export. Concentration in activities in which the labor-output ratio is high and the capital-output ratio is low would be advantageous to most less-developed countries. This would simultaneously make use of their relatively abundant factor, labor, and economize on the use of foreign exchange for capital goods. Locational and other cost factors inhibit less-developed countries in some lines of production. The possibilities are not unlimited in manufacturing production, but by the time less-developed countries are established in some lines, external economies and a broadening of the industrial base will permit other manufacturing production.

POLICY AGENDA

The United States and other industrialized countries should regard their trade policies affecting the export markets of less-developed countries as being equally if not more important to the economic development and welfare of these countries than the provision of economic assistance. Unless steps are taken to permit a broadening of world markets for products of less-developed countries, foreign aid will be wasted in the sense that these countries will never achieve the objective of self-sustaining growth and will increasingly be subject to political and economic instability.

The limit on the amount of foreign aid may already have been reached, yet the trade position of less-developed countries portends capital requirements several times the present amount of foreign aid. Only expanded exports can provide the foreign exchange necessary to maintain an acceptable rate of growth. It is not a question of trade versus aid. Both are mandatory.

The United States in cooperation with other advanced countries should take immediate steps to increase the share of the products of less-developed countries in world markets for primary commodities. This means gradually reducing and eventually eliminating import restrictions on primary commodity imports from less-developed countries and foregoing export policies which may reduce the markets of these countries in order to favor domestic producers.

Measures to expand world markets of less-developed countries for industrial products may be even more important than those designed to increase their markets for primary goods. Less-developed countries must broaden their export base by exporting some highly processed and finished manufactures. Industrial countries must make a conscious effort to pursue a trade policy which benefits less developed countries.

The problem is so urgent that it cannot wait for the gradual reduction of tariffs and other barriers to imports on a most-favored-nation basis. Frequently the commodities that less-developed countries are most capable of producing for world markets are the very ones on which the heaviest burden of import

(*Continued on page 117*)

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This specialist observes that the United States unilateral embargo on trade with the Soviet bloc "did not affect the development of Communist countries." Clearly, "it is in our national interest to adjust our trade policy toward the Soviet bloc to the new conditions which have emerged . . . ," and realign our policy with "that of the other members of the Atlantic Alliance."

United States Trade and the Soviet Bloc

By Vaclav E. Mares
Associate Professor of Economics, Pennsylvania State University

In the last days of June, 1962, the United States Congress quickly approved a bill which extended for three more years the Export Control Act of 1949. Because its expiration date coincided with the Reciprocal Trade Agreement Act, the new Trade Expansion Act received most attention. After its passage there was not much time left for the badly needed updating of the Export Control Act. Thus, this second most important piece of our basic trade legislation had to be extended in its 1949 version—except for a few added policy recommendations and somewhat tougher sanctions against the Act's potential violators.

The purpose of the export controls is defined in the second section of the Act as follows:

It is the policy of the United States to use export controls to the extent necessary (a) to protect the domestic economy from the excessive drain of scarce materials and to reduce the inflationary impact of abnormal foreign demand; (b) to further the foreign policy of the United States and to aid in fulfilling its international responsibilities; and, (c) to exercise the necessary vigilance over exports from the standpoint of their significance to the national security.

The United States Department of Commerce, which administers the Act, distinguishes between "short supply" export controls and "security" export controls. Since 1958, the Department has not found any need for the use of the "short supply" export controls. Thus, the whole control system again resumed fully the function for which it was adopted in July, 1940—three weeks after the fall of France; it became, once again, solely an extended protective arm of United States foreign policy. Since the time that the Soviet bloc replaced Nazi Germany as the main potential threat to our security, the shipments to its countries have been receiving the main attention of our export control administrators. Thus, during all the years of cold war, our export controls have been the main determinants of the volume of United States–Soviet trade.[1]

The fluctation of our trade relations with the countries of the Soviet bloc reflected, by and large, the oscillations of our political relations with their governments. This can be traced on the chart on page 89.[2] Gen-

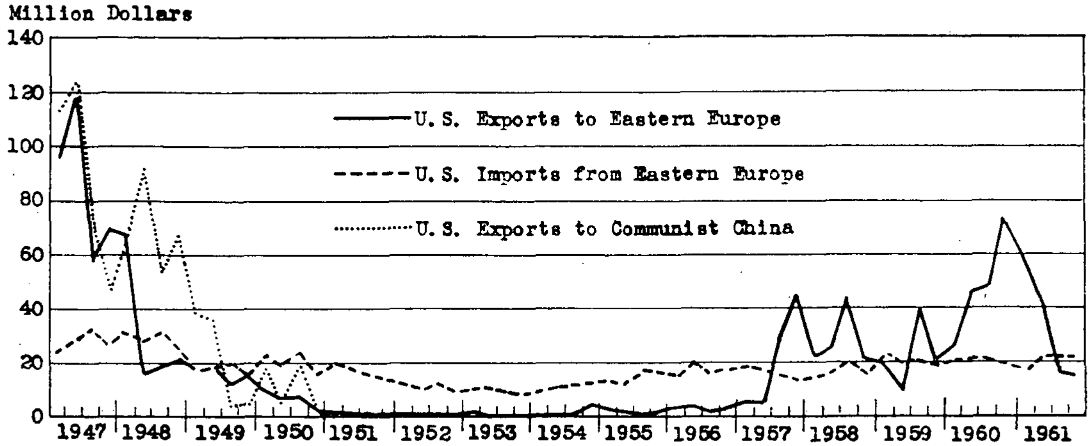
[1] The group terms as used in this article, include the following countries:

"Soviet or Russia's European satellites": Albania, Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, Rumania.

"Eastern Europe": same countries as above plus Soviet Union (also referred to as "Soviet Bloc").

"Sino-Soviet Bloc": same countries as above plus Communist China, Outer Mongolia, North Korea, North Vietnam.

[2] Reproduced from the 58th Quarterly *Export Control Report,* U.S. Government Printing Office, Washington, D.C.—Attention is called to the fact that the reported figures are quarterly magnitudes. Thus, for example, in 1953 the annual total of U.S. imports from Eastern Europe was $36 million while the quarterly average was, as the chart indicates, about $9 million.



U. S. EXPORTS TO EASTERN EUROPE
AND COMMUNIST CHINA; IMPORTS FROM EASTERN EUROPE
QUARTERLY; 1947-1961

erated by the impetus derived from the wartime alliance as well as by the postwar relaxation of export controls, our exports to the Soviet Union remained high during the first postwar years. Generous U.N.R.R.A. shipments to Central and Eastern European countries helped to swell our export figures to these areas which later became part of the Soviet bloc. In the opposite direction, because of the disruptive effects of the war upon the productive capacity of that area, the resumption of trade was slower.

After 1948 the relations between the United States and the Soviet Union deteriorated rapidly. Soviet reaction to the Marshall Plan; the Kremlin-ordered withdrawal of Poland and of Czechoslovakia from participation in it; the Soviet Union's increased domination of the defeated or liberated countries in Central and Eastern Europe; the Berlin blockade; the Korean War; the emergence of Communist China next to the Soviet Union behind the North Korean firing lines—these were the major events that, toward the end of Stalin's rule, eroded the last traces of partnership spirit between the allies.

The United States decided to counteract on the economic front. In the spring of 1948, it started to apply extensive export controls on all shipments to Communist bloc countries in Europe. In February, 1949, the United States passed its new Export Control Act. At the end of 1950, an embargo was placed on all exports to Communist China and to North Korea and, later, to North Vietnam. In 1951 the United States Congress passed the Battle Act by which it tried to exert pressure upon allied and neutral countries which were receiving American aid; such aid, in terms of the Act, would be discontinued to countries which did not adopt the same trade restrictions toward the Soviet bloc countries as did the United States. At the same time, the United States government tightened, by various executive orders, controls on shipment to non-Soviet destinations so as to prevent unauthorized diversions of such shipments.

In June, 1951, the United States served notice to the Soviet Union of its intention to abrogate the commercial agreement and the most-favored-nation clause under which mutual trade had been conducted since 1937. By similar steps, adjusted to individual contractual situations, the United States withdrew the most-favored-nation treatment from Soviet satellites. Thus, except for Poland, to which the most-favored-nation treatment was later restored, all Soviet goods imported since then into the United States have been charged

duties at the rates originally specified in the Hawley-Smoot Tariff of 1930; for many products these are by 100 per cent or more higher than the contractual rates charged on imports from countries with which reciprocal trade agreements are in operation. Moreover, by special rulings and for miscellaneous reasons, the imports of certain Soviet products have been completely prohibited (as, for example, certain types of furs and food products). In revenge, the Soviet Union restricted drastically the exports of manganese and chrome ores to the United States.

The impact of these actions on the mutual flow of trade can be seen in the middle part of the chart. Between 1951 and 1953 the volume of our exports to the Soviet bloc countries dropped below the minimum level set for statistical reporting. The year of Stalin's death, 1953, was also the year of our lowest imports from the Soviet Union and its European satellites; their total value dropped to $36 million. It is interesting to note that only Polish ham and bacon and some Russian furs succeeded in braving the tariff and administrative hurdles which for some time managed to paralyze the rest of our trade with the Soviet bloc.[3]

The political relaxation after Stalin's death was followed only slowly by trade expansion between the United States and the Soviet bloc. The slight increase of American purchases from that area was reversed in 1957 by the psychological effect, upon American buyers, of Soviet brutality in Hungary. The sudden, jumpy revival of United States exports to the Soviet bloc countries which appears in the right third of the chart was much less the result of an introduced modification of our export controls than of the aid and credits extended to Poland for purchases of our wheat and cotton. This, too, was a psychological effect of the revolts in Poland and in Hungary which worked in the opposite direction. In spite of Poland's usual support of Moscow's views on most of the controversial issues of world politics, the United States Congress, as a gesture of friendship to the people of Poland, repeatedly approved these sales. They will inflate also this year our trade figures with the Soviet bloc.

THE U.S.—YUGOSLAV TRADE

Quite different was the development of our trade relations with Yugoslavia. When, in 1948, Tito committed his heresy, the Soviet Union cancelled all its trade contracts with Yugoslavia. This action threatened to upset completely Yugoslavia's industrialization plan and her food supply program. With Western Europe still in the throes of her own postwar shortages and production deficiencies, only the United States could come to Tito's help. Prompt shipments of needed food, raw materials, and equipment enabled him to stand firm against Stalin's extortions without abandoning his development plan. For the whole following decade, Yugoslavia continued to get from the United States about one-fourth of all her import needs. They helped to provide an adequate and diversified diet to her people and enabled her government to continue in its industrialization plans. About one-fourth of these imports were financed by countershipments of ores, metals, and tobacco to the United States; the rest were financed by credits and grants.

West Germany, with her large supply capacity of producers' goods, and the Soviet Union, with her political ambition to build a common front of socialized economies against the Common Market, are presently trying to intensify their trade relations with Yugoslavia. Their efforts might reduce in the future the volume of industrial material and equipment that Yugoslavia has been getting from the United States so far. On the other hand, newly-signed agreements concerning sales of American cotton, wheat, soya bean meal, lemons, and some other foodstuffs, all of which will be payable in Yugoslavia's currency, testify to the United States' willingness to continue to help Yugoslavia with her economic problems.

For the last 14 years our reserved attitude on trade with the Soviet bloc has been the

[3] See *Foreign Commerce Weekly:* Various statistical reports and Ernest Rubin's analytical comments on U.S.-Soviet trade.

result of Soviet-instigated acts of military aggression and of its militant attitudes on the political front that divides East and West. It was the expression of the American conviction that the Soviet official policy of peaceful coexistence is only a subterfuge for the winning of time in the worldwide struggle in which the Soviet Union and its fellow countries are determined to defeat the West; that their industrialization plans are being pushed as part of the same Kremlin's campaign for world domination; and that, consequently, we should not help them by trade and especially not by credits to accelerate the build-up of their industrial and military potential for such vicious purposes.

This policy was based on the assumption—correct if one disregards the employment effect of exports—that loss of trade would hurt the Communist countries more than us. They were eager to import the products of the United States advanced technology, for which they could not easily find, in the early 1950's, substitute sources; on the other hand, the materials and products that they could sell to us were only of marginal value to our economy and were easily obtainable from other world markets.

THE AMERICAN VIEW

This view motivated our extensive export controls which, when the Korean War started, led to a virtual embargo on all Soviet-bound shipments. Somewhat reluctantly, the European allies followed the same policy. In 1951, an agreement was concluded with 14 major industrial nations (the Nato group, minus Iceland and plus Japan) by which the coordination of exports of strategic materials was entrusted to a permanent Coordinating Committee that later became known as COCOM.[4] However, no agreement was ever reached on the interpretation of the term "strategic." Thus, each member government had its own list of strategic goods and, even during the Korean War, there was no uniformity in the application of controls.

When the Korean War ended, the European members of the COCOM group relaxed their export controls and resumed their trade with the Soviet bloc. The United States, on the contrary, went on with the application of strict export controls on its Soviet trade. While this policy correctly reflected the popular sentiment on this issue, it became hopelessly ineffective with regard to its original purpose—to check the growth of Soviet industrial and military power.

The softer attitude of the West Europeans toward the trade with the Soviet bloc was motivated by more than purely business interests. The issue was discussed repeatedly in the Western press and political groups. The fear of possible Soviet aggression determined public reasoning and policy recommendations there much less than here. The tenor of West European opinion on trade policy toward the Soviet bloc in the post-Korean years was recorded by Alec Nove from the London School of Economics as follows:[5]

> . . . We should not accept the view that the Soviets must always be fully occupied with plotting our downfall. Already they are much more concerned with their *internal* growth than their critics allow. Their hostile acts towards us may be, often are, influenced by our acts towards them. Trade establishes *mutually* advantageous relations. It strengthens the U.S.S.R., true, but it also strengthens us. Were it otherwise, neither side would trade at all. . . . Trade relations make both sides more dependent on each other, and enlarge points of contact. This is why Stalin tried to reduce such relations; surely we ought not to follow Stalin's policy a l' envers. . . . We cannot criticize the Soviet countries for not acting on rational commercial lines in their trade and investment policies, and then cut off supplies to them because of the urgency of their need for a given set of goods. This is particularly illogical politically in the case of the European satellites, many of whom appear to be genuinely desirous of becoming less dependent on the Soviet Union economically. All the foregoing applies equally to credits. A commercial credit, voluntarily granted at the market rate of interest, is not aid, but a normal commercial transaction. . . . Unless one seriously supposes that an all-out clash is due within these years, credits should be no more barred on political grounds than any other transaction.

[4] Not to be confused with COMECON, the Soviet bloc's Council of Mutual Economic Assistance.

[5] Nove and Donnelly: *Trade with Communist Countries* (The Macmillan Co.), p. 56.

Due to this matter-of-fact attitude of the West Europeans, their trade with the Soviet bloc after the Korean War showed substantial gains. From 1955 to 1960, the Soviet bloc's exports to the six Common Market countries increased twice, the Soviet bloc's imports from the Common Market countries increased four times. West Germany, in 1955 far behind among the Soviet Union's non-bloc suppliers, headed their list in 1960. Moreover, she supplied the Soviet countries with products that they needed the most: laminated steel, transport equipment, chemicals, power generating and other machinery, and complete plant installations. As the accompanying table for 1960 indicates, the Sino-Soviet bloc accounted in that year for from three to six per cent of the total trade of West European nations. None of them became so dependent on Soviet trade as some of the Soviet Union's neighbors (Finland, Iran) or its new political allies (Cuba, Guinea); however, trade expansion possibilities were tempting and the export-minded West Europeans felt that they could not afford to neglect them. In 1960, the total value of their Soviet trade reached a figure ten times the value of the United States-Soviet trade, the major part of which consisted of the sales of our surplus commodities to Poland. About one-third of the East-West trade was directed to or originated in the Soviet Union and Communist China accounted for less than one-sixth; the balance —more than one-half of the total—was made up by trade with Moscow's European satellites.

THE SOVIET VIEW

Stalin's postwar policy aimed at a maximum of autarky within the Soviet bloc. He tried to achieve it by a tight incorporation of satellite economies into the Kremlin's master plan which, in turn, was based on his idea of "international socialist division of labor." Due to this policy, the extra-bloc trade dropped below 20 per cent of the Soviet bloc's total trade transactions. This, in turn, meant that the Soviet economy lost a source of closer contact with the West for about 15 years and that a variety of technological innovations developed by Western competitive enterprises was unknown to the Soviet planners. This policy was publicly denounced by Mikoyan in 1956 as one of the great blunders of Stalin's leadership.

This denouncement was the official turning point in the Kremlin's attitude toward the trade with the West. Pronouncements of official Soviet leaders were surprisingly honest when they were giving reasons for the reversal of their former policy. Khrushchev himself admitted publicly that imports from capitalist countries "would bring about a more rapid fulfillment of the program . . . without wasting time on the creation of designs and mastering the process of production of new types of equipment."[6] And Mikoyan in his address to the Twenty-Second Party Congress declared that ". . . it will be necessary to make wide use of foreign trade as a factor for economizing in current production expenditures and in capital investments, with the aim of accelerating the development of corresponding branches."[7]

Such statements justifying the change of policy were accompanied or followed by direct trade offers. In 1958, during the American recession, Premier Khrushchev announced publicly a long shopping list for American products in which the Soviets were interested and wrote to President Eisenhower that, with the help of United States credits, the trade between the two countries "could amount to several billion dollars in the next few years." In 1959, when he visited the Leipzig Fair and, in front of television cameras, shook hands with Krupp and other Western businessmen, he made a public offer of "extensive trade" to all the "good" capitalist countries.

In the meantime, Moscow's negotiators were going around concluding barter agreements with countries and business firms outside the Soviet bloc. Some 200 of them were in operation in 1960. Orders for sulphur, copper, industrial diamonds, ball

[6] *Pravda,* May 7, 1958.
[7] *Ibid.,* October 22, 1961.

Trade of the Western Allies and Japan (the COCOM group) with the Sino-Soviet Bloc
(in million current U. S. Dollars)

Year 1960	1 Total Imports	2 Imports From "Bloc" Countries	3 Col. 2 as per cent of Col. 1	4 Total Exports	5 Exports To "Bloc" Countries	6 Col. 5 as per cent of Col. 7
Belgium-Lux.	3,957	88	2.2	3,775	141	3.7
Netherland	4,531	119	2.6	4,028	70	1.7
France	6,280	178	2.8	6,864	276	4.0
W. Germany	10,104	449	4.4	11,415	533	4.7
Italy	4,715	289	6.1	3,649	212	5.8
United Kingdom	12,758	459	3.6	9,902	302	3.0
Denmark	1,832	98	5.3	1,494	61	4.1
Norway	1,461	49	3.3	880	43	4.0
Greece	702	55	7.8	203	45	22.2
Turkey	468	43	9.2	321	39	12.1
Portugal	545	8	1.5	327	7	2.1
Japan	4,491	125	2.8	4,055	73	1.8
Canada	5,665	19	.3	5,563	46	.8
United States	14,652	83	.6	20,300	193	.9

SOURCE: Prepared from UN Commodity Trade Statistics 1960

bearings, oil pipes and refinery and transportation equipment started to arrive in large numbers into West European trade centers. New interest appeared for complete plants embodying the latest technology known in the West. Such "package deals" were placed for plants for synthetic fibers, for tires, for coal beneficiation, for petrochemicals, and for a great variety of other chemical installations. Moreover, selective orders of prototypes of newly developed or improved machinery became a part of this methodical procurement by the Soviet Union of advanced equipment and know-how from the West.

The result of this new Soviet trade policy is apparent from Soviet trade statistics. In 1960 non-bloc imports accounted for 32 per cent of the Soviet Union's total imports (against an average of less than 20 per cent at the end of Stalin's era). A similar and even a greater expansion of trade with the West appeared in the figures of Russia's European satellites. All of them imported in 1960 \$2.2 billion worth of goods from the non-Communist world, as compared with \$1.5 billion worth of extra-bloc goods imported by the Soviet Union. Poland was leading in this shift among the trading partners; the share of her non-bloc trade rose to 40 per cent of her total trade.

Since the Soviet bloc does not have income from other outside sources such as investments, shipping services, or reparations which contributed to its income in the early postwar years, it must observe in all its trading activities the imperative necessity of the exports—imports equation. To its former export staples, grain and timber products, the Soviet Union added recently increasing quantities of coal, crude oil, and oil products; shipments of tin and aluminum which, in 1958, somewhat alarmed the London market, have not reappeared since then. Bacon and coal from Poland, steel and some manufac-

tures from Czechoslovakia, oil from Rumania, and electrical machinery from Hungary also helped to earn the "capitalistic" currencies that the Soviet bloc needs for its purchases from the West.

The Soviets consistently maintained their view that barter was the best basis for trade with capitalistic countries. They objected that, in non-barter agreements, they were only receiving *admission* to competition in capitalistic countries which was not equivalent to the firm purchasing commitments of Soviet trading monopolies. The West European nations, normally supporters of the multilateral principle in trade, showed a willingness to accept barter agreements in their deals with the Soviets; they preferred this to the granting of full reciprocity with most-favored-nation treatment which, they felt, would have given an unfair advantage to the Soviet trade monopoly over their own decentralized private trading firms.

ATLANTIC APPROACH NEEDED

As a result of all these developments, United States economic policy toward the Soviet bloc has become isolated from that of the other members of the Atlantic Alliance. In recognition of this fact it received a great deal of attention in the broad-scale study of our foreign economic policy which in response to President Kennedy's trade expansion program, was recently undertaken by the Joint Economic Committee of the United States Congress. Ten special reports provided statistical and background material for two weeks of hearings held last December in Washington; some 40 trade authorities from the ranks of professors, politicians, and business leaders were asked to testify.[8] Their testimonies on Soviet trade and the prevailing policy recommendations are summarized in the following paragraphs.

[8] Witnesses on trade with the Sino-Soviet bloc who testified: Samuel Pisar, Los Angeles, Calif.; Robert L. Allen, University of Oregon; Emilio G. Collado, Standard Oil Co., N.J.—Authors and co-authors of the special reports dealing with the Soviet trade were: Senator J. K. Javits, former Secretary and Assistant Secretary of State Christian A. Herter and William L. Clayton, Samuel Pisar, Leon Herman, and other experts.

A general consensus existed about the necessity of an alignment of the United States and West European trade policies toward the Soviet bloc. In the last years the United States, with its unilateral policy toward the Soviet bloc, operated in a vacuum. Since we did not convince the West Europeans with our security and ethical considerations of the danger and of the immorality of Soviet trade, our virtual trade embargo against the Soviet bloc did not affect the development of Communist countries. Nor would it affect their growth in the future should we decide, in order to achieve a certain moral satisfaction, to continue this policy on our own.

It is in our national interest to adjust our trade policy toward the Soviet bloc to the new conditions which have emerged over the past decade. Strategic embargo should be either completely discarded (Dr. Allen's view) or it should be limited to a list of products which would be acceptable to the West European nations (prevailing view). Their interest in Soviet trade is, naturally, greater than ours, although the employment effect of *exports* should not be overlooked here; relative usefulness of *imports* is only one of the two measures of mutual benefits from trade.

The bargaining position of Western Europe vis-a-vis the Soviet bloc is today stronger than ours. We taught the Soviet bloc countries how to live and grow without trading with us; but they would be hard hit if they were cut off from West European trade. Because of

(*Continued on page 117*)

Vaclav E. Mares, native of Czechoslovakia, worked with the coal, steel and cement industries in Central Europe and came to the United States on a diplomatic mission for his native country after World War II. He resigned later from government service, became an American citizen, and joined the faculty of the Pennsylvania State University where he teaches in the fields of industrial and international economics. In 1961 he spent his sabbatical leave in Europe where he studied the regional development policies in the Common Market countries and in Yugoslavia.

Discussing United States agricultural abundance and surpluses, these authors observe that the United States is the world's largest exporter of agricultural goods, and at the same time a leading importer of farm products. "Clearly, the challenge confronting the United States" today is the pressing need to negotiate with Europe and "all the nations of the free world" a tariff policy "which will lead to expansion rather than restriction of agricultural trade."

The Farm Surplus and Tariff Reform

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THE UNITED STATES[1] is the world's leading producer of agricultural products. Besides supplying the domestic and foreign market, American farmers are turning out a surplus greatly in excess of such market needs. While the surplus is large, American agriculture has the capacity for an even larger surplus, because of continued advances in science and technology.

The existence of the farm surplus offers both a challenge and an opportunity for using it wisely. One of the most important ways to accept this challenge and opportunity is to increase agricultural trade among the the countries of the free world. Basic to an increase in trade is the need to understand the paradox of the surplus, how it is currently being handled, and why trade barriers must be reduced or eliminated to enable increased trade abroad. This article focuses on these significant points.

THE PINCH OF PLENTY

The United States, unlike many other countries of the world, enjoys an abundance of high quality, low cost food and fiber. This very abundance, however, poses a major problem of too much agricultural output, more than enough to meet the combined demand of the domestic and foreign markets. Reduced prices received by farmers for their products reflect this condition while cost prices of production resources used by farmers remain high. As a result, farmers suffer from a cost-price squeeze because they continually purchase new equipment and adopt new techniques which reduce costs per unit of output but greatly add to over-all farm production.

At the beginning of 1961, the Commodity Credit Corporation had over $9 billion in loans and inventories of surplus farm commodities, principally wheat, feed grains and cotton. This vast treasure would be looked upon with favor by many other countries of the world that suffer from chronic shortages of food and fiber. While it is regarded by United States citizens as more fortunate than shortage, over-abundance does represent a serious problem of demand-supply imbalance.

Efforts have been put forth to alleviate the income-depressing effects of the United States farm abundance and progress has been made. In 1961 American farmers had the best farm

[1] The views expressed in this article are those of the authors and do not necessarily represent the official views of the United States Department of Agriculture.

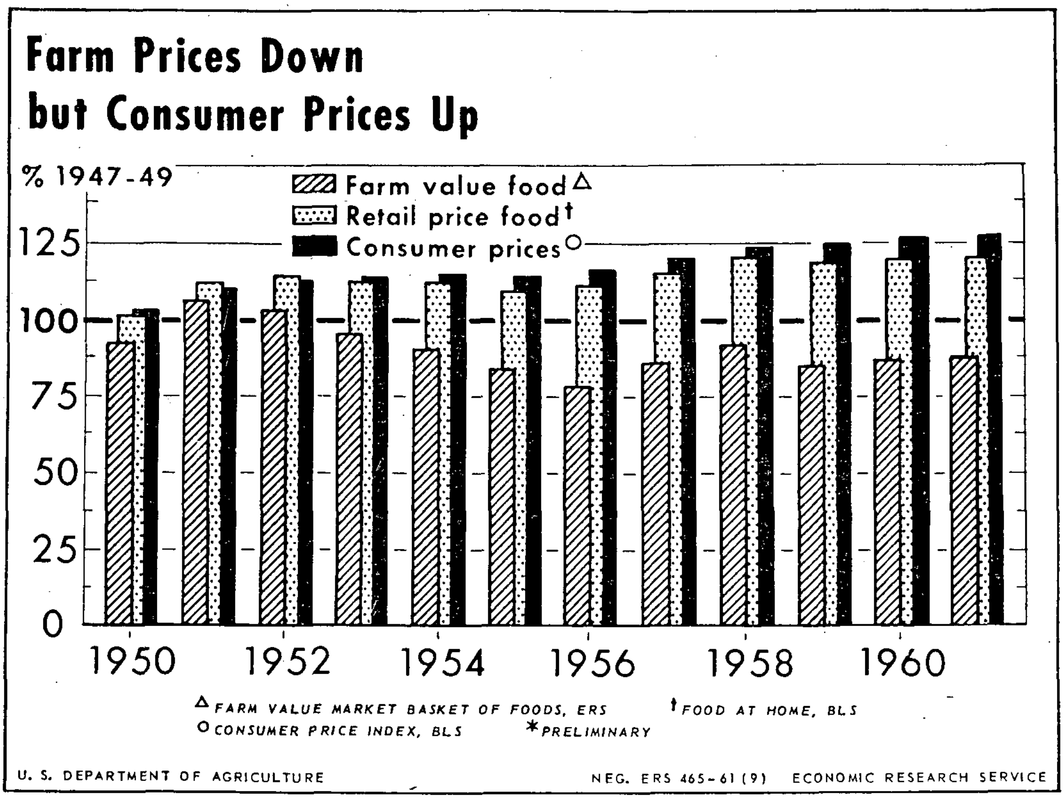

Figure 1

income year in almost a decade. Price support and production control programs have been undertaken by the federal government over the past three decades, yet the continued application of science and technology in agricultural production has resulted in supplies out-running demand. Although farm prices were lower in 1961 than a decade earlier, this decrease has not resulted in reduced food prices to consumers (Figure 1).

On the domestic scene, farm abundance depresses farm income and raises government costs by necessitating expensive storage and handling charges. At the same time, however, it also serves as an important reserve for drought and defense emergency use.

On the foreign scene, United States farm abundance helps meet the food and fiber requirements of the free world. Besides helping supply the free world, there are also foreign policy implications involved in United States farm exports. Economic interchange among the countries of the free world is, in itself, a unifying factor. Economic unity is conducive to political stability which is essential to the world today.

AGRICULTURAL EXPORTS

The foreign market is of vital importance as an outlet for United States farm products, particularly those in greatest surplus. The export market takes half our wheat and cotton production and accounts for almost one-fifth of our feed grain sales. Besides providing an important outlet for farm products in greatest surplus, exports also take a significant share of the production of other major farm commodities including rice, tobacco, tallow and greases, soybeans, soybean and cottonseed oils, and lard. Exports as a percentage of yearly production in fiscal year 1960–1961 equaled over half the rice crop, more than two-fifths of the tallow and grease output, more than one-fourth of the

production of soybeans, and one-fifth of the output of soybean and cottonseed oils and lard.

Agricultural exports from the United States include many different commodities. Most of the total value, however, is accounted for by a few major commodity groups. Grains and cotton together comprised more than half the total in 1961. Cotton alone made up 20 per cent of the total. Other important commodity groups, accounting for slightly less than half of the total, included animals and animal products, vegetable oils and oilseeds, fruits and vegetables, and tobacco.

The United States in 1961 supplied nearly one-fifth of the volume of farm products that entered world trade. To ship these products abroad, arrangements had to be made for financing, inland transportation, storage, and ocean shipping for 14 million tons of cargo—enough to fill over one million freight cars or over four thousand cargo ships. An average of 11 ships weighed anchor daily with farm products.

Although more than 125 countries were involved in the agricultural export trade of the United States in 1961, relatively few accounted for the bulk of the exports. These countries, excluding Canada, are located in Europe and Asia (Figure 2). Ten countries took nearly two-thirds of total United States farm exports. These countries—Japan, the United Kingdom, Canada, India, West Germany, the Netherlands, Italy, Poland, Spain, and Belgium—each took more than $100 million worth of American farm products.

The value and volume of agricultural exports in recent years has been at its highest level in history. In fiscal year 1960–1961 the United States exported a record $4.9 billion worth of agricultural commodities. The quantity index of volume of United States exports in fiscal year 1960–1961 stood at 195 (calendar years 1952 through 1954 = 100). The current high level reflects the continuation of an upward trend that got under way during the early years of World War II fol-

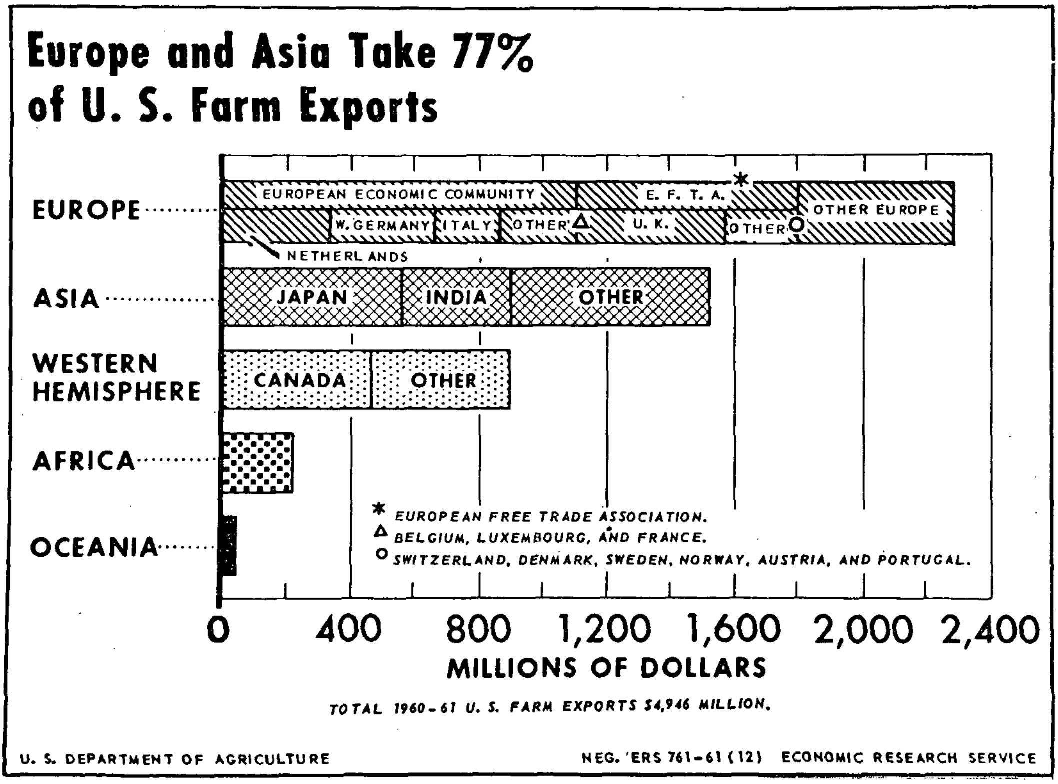

Figure 2

lowing adoption of the lend-lease program. This upward trend reversed a downward trend which prevailed from the late 1920's to 1940–1941, a decline brought on largely by the movement in Western Europe toward agricultural self-sufficiency and accompanying restrictions on trade.

AGRICULTURAL IMPORTS

In addition to being the leading exporter of farm products, the United States is also a major importer, ranking a close second to the United Kingdom, the world's number one agricultural importer. United States farm imports in recent years, however, have been declining. Imports for consumption were the smallest in 11 years in the fiscal year 1960–1961 (Figure 3). Amounting to $3.6 billion, they were nine per cent below the $4 billion in the previous year. The volume of imports fell by 4 per cent. The decrease, to a large extent, was due to the slowdown in United States business activity. The decline was about equally divided between supplementary (somewhat competitive) and complementary (noncompetitive) items. Each group of commodities continued to account for about equal shares of the agricultural total. Agricultural commodities accounted for 26 per cent of total imports for consumption.

The United States has relatively low duties on agricultural imports. For the 45 per cent of United States agricultural imports that were dutiable in fiscal year 1961, the ad valorem equivalent of all duties averaged 11 per cent. For all agricultural imports—free and dutiable—the ad valorem equivalent averaged 6 per cent. Legislative authority exists to regulate imports whenever they materially interfere with the marketing quota, price-support or other programs conducted by the United States Department of Agriculture; Section 22 of the Agricultural Adjustment Act, as Amended, provides for regulation of such imports. Commodities controlled

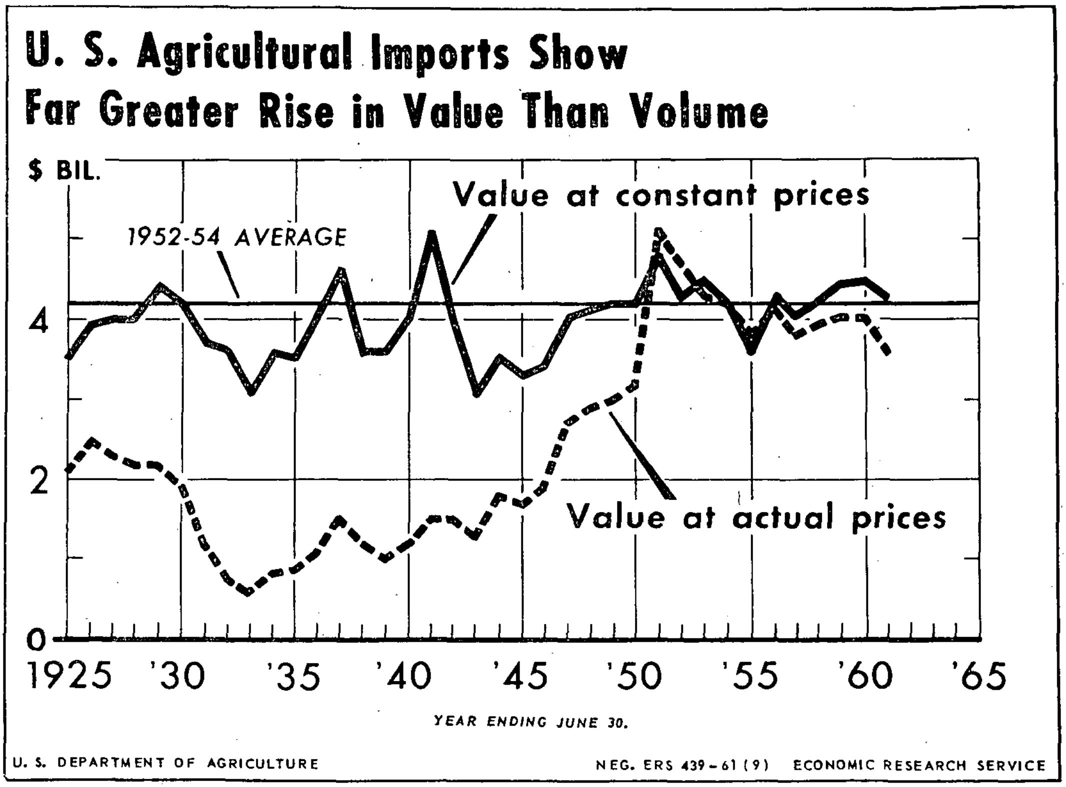

Figure 3

at present under Section 22 are wheat and wheat products; cotton, certain cotton waste, and cotton produced in any stage preceding spinning into yarn (picker lap); certain manufactured dairy products; and peanuts. Tung nuts and tung oil were removed from Section 22 control effective May 1, 1962. Sugar imports are regulated by quotas under the Sugar Act of 1948, as Amended, to provide a stable market for domestic sugar.

TWO MARKETS ABROAD

Today's record levels of agricultural exports have come about through recognition of the fact that the United States farmers' foreign market actually has become two markets, and each market must be approached in a special way. One of these foreign markets is the "dollar market." The other is the "non-dollar market."

The dollar market is made up of the more prosperous, economically developed countries, able to pay dollars or other convertible currencies for the supplies they buy from the United States. This market consists largely of Western European countries, plus Japan and Canada, although several other countries, including Venezuela, Mexico, and the Philippines, also are good cash customers. Of the $4.9 billion of total agricultural exports in 1960–1961, 69 per cent represented commercial sales for dollars.

The non-dollar market includes the less-economically developed countries, which badly need products but lack convertible exchange. The non-dollar countries are mainly in Asia, the Middle East, Africa, and South America. Exports under specified government-financed programs make it possible to ship United States farm products to the underdeveloped countries. Exports under these programs, identified as Food for Peace, amounted to $1.5 billion (31 per cent) of total agricultural exports in 1960–1961.

The efficiency of American agriculture makes it possible for United States farmers to compete in world markets with a wide range of products. However, domestic prices are higher than world prices for such commodities as wheat, cotton, rice, feed grains and dairy products. In such cases the Commodity Credit Corporation makes export payments in cash or in kind or sells stocks below domestic market prices so these commodities can move abroad. Of the total agricultural exports of $4.9 billion, $2.4 billion worth moved in this way in 1960–1961—$1.4 billion were shipped as dollar sales and $1 billion under Public Laws 480 and 665 (Figure 4). The estimated cost of the export payments was over $600 million, excluding U.S.D.A. donations valued at $300 million. Export payments, excluding donations, equaled 12 per cent of the value of United States farm product exports.

SPECIAL PROGRAMS

Sales for foreign currency represent by far the largest of the special export programs. A substantial percentage of the foreign money "generated" by these sales is loaned and granted back to recipient countries to finance economic development. A substantial portion is also used by the United States government for various United States uses abroad, including market promotion.

Barter makes it possible for the United States to "swap" stocks of surplus food and fiber for foreign-produced strategic and critical materials required for stockpiling. Credit sales for dollars also are authorized. Commodities may be sold for dollars on credit at moderate rates of interest. Countries using this program have up to 20 years to make payment.

Sales for dollars are given top priority in United States export programs. Dollar sales strengthen United States farm incomes, of course, but there are other advantages. They contribute materially to meeting food requirements of the free world. In addition, the United States receives substantial dollar income that helps to finance its own imports from abroad. Further, this healthy trade between the countries of the free world is in itself a unifying factor.

In an effort to expand dollar sales, market promotion work is going forward in about 50 countries. Because promotion is primarily a private industry responsibility, the Depart-

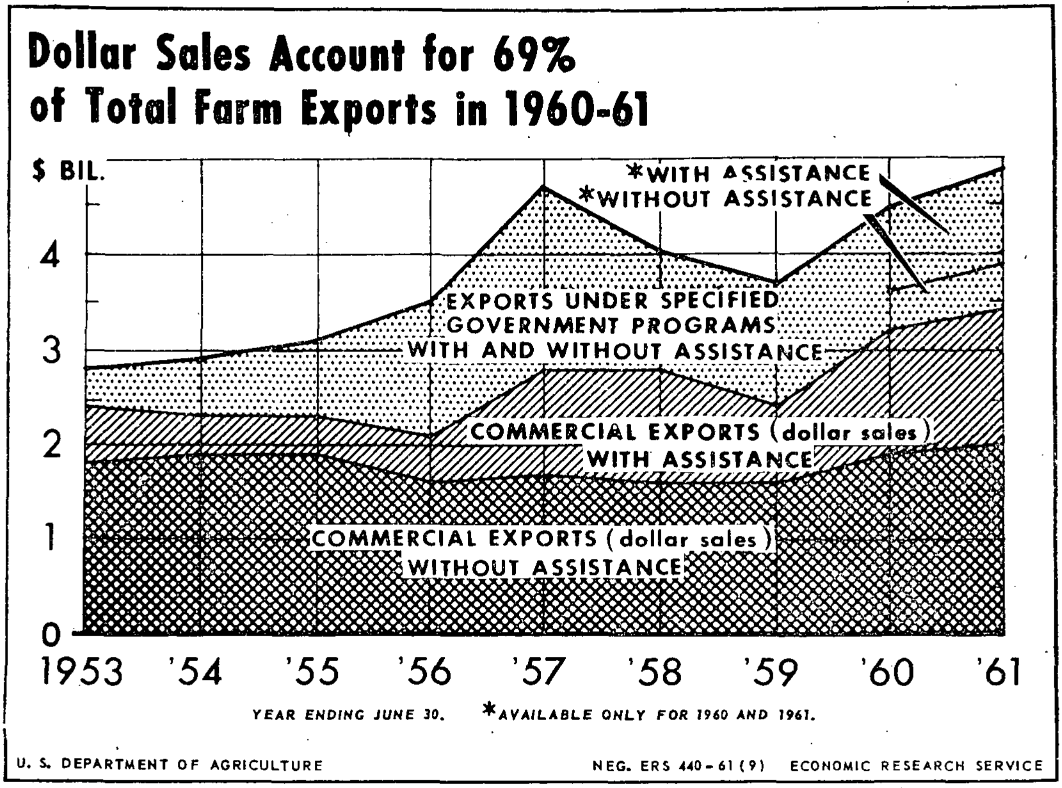

Figure 4

ment of Agriculture has worked out cooperative arrangements with about 40 nonprofit, national agricultural and trade groups. "Promotion" includes exhibits and demonstrations of United States farm products, introduction of products, surveys and studies of market potential, publicity and advertising, education on nutrition and sanitation, exchange of management and technical personnel, technical assistance, and sales training.

Donations are made by the United States to the governments of less-developed countries. Other donations are made through voluntary agencies operating abroad—or through such international organizations as U.N.I.C.E.F.—a United Nations children's food relief agency. Donated food supplies are used for famine relief, aid to refugees, school lunch programs, and similar worthy uses.

Even though the "non-dollar" areas of the world lack the cash resources to buy large amounts of United States farm products, their need for such supplies is great. In recent years, United States government-financed programs have been set up to make it possible for friendly countries to have access to our bountiful supplies even though they lack dollars. This "Food for Peace" concept specifies that the United States will do what it can to help foreign friends become adequately fed, because there is no chance for peace and progress in a world where millions of people go to bed hungry every night.

FOOD FOR PEACE

Most of the Food for Peace exporting is done under Public Law 480, which has been in effect since 1954, although its conceptual antecedents go back before that year. For example, during World War II, the Secretary of Agriculture urged greater output because "food will win the war and write the peace." After the war, the United States generously gave large quantities of food to rehabilitate

war-devastated areas. A smaller amount of exporting under the current Food for Peace Program has been done under Public Law 665.

GOVERNMENT EXPORTING

Exports under government programs are large enough to be highly important both to foreign producers and United States producers. These programs are carried out carefully and responsibly. Established producers in a country receiving United States products must not be hurt, and their incentive for producing must not be impaired. The availability of American farm supplies must not depress a country's efforts to feed its own people. Further, the world's commercial marketing mechanism, so important to the United States farmer, must not be damaged.

Helpful as foreign market development is, it must be preceded by access to markets. Of immediate and crucial importance in getting this access is the need to eliminate or modify further growth of trade barriers.

TRADE BARRIERS

Foreign trade barriers are of two principal kinds: Tariff and non-tariff. Most countries of the world have erected trade barriers of one kind or another, usually based on a desire to protect some segment of their economy, or encourage self sufficiency, or raise revenues, or a combination of these objectives.

Non-tariff barriers in recent years have often been more serious impediments to foreign trade than tariffs. Among the different non-tariff devices are import fees, quotas, embargoes, licenses, exchange controls, state trading, bilateral trading, payment agreements, preferences, and mixing regulations.

Since the end of World War I changing circumstances have necessitated rapid adaptations of tariffs to different conditions. As a result, legislative revisions of tariffs have been made at shorter intervals, tariff treaties have been subject to early termination, and in many countries administrative authorities have been granted power to change the effective tariff rates without prior references to legislative authorities.

RECIPROCAL TRADE AGREEMENTS ACT

The Reciprocal Trade Agreements Act of 1934 provided a means of implementing freer trade. It represented a major change in United States policy which in the preceding decades had been principally trade restrictive. In the beginning, the Trade Agreements Act was used primarily to make bilateral trade agreements (between two nations). With the passage of time, further liberalization was sought by the increasing use of multilateral agreements (between more than two countries). This Act has served well in aiding and contributing to increased trade. When it was passed in 1934, United States agricultural exports totaled $733 million while imports equaled $821 million. By 1961, United States agricultural exports increased to a record $4.9 billion and agricultural imports rose in that same year to $3.7 billion.

The Reciprocal Trade Agreements Act evolved as the legal framework for implementing the trade expansion program in the 1930's. Today, with the expiration of the Trade Agreements Extension Act of 1958 on June 30, a legal framework is being sought once again for implementing trade expansion in the 1960's.

THE E.E.C.

Of particular importance is the need for effective policy guidelines in trade negotiations with the newly emerging trade bloc constituting the European Economic Community (E.E.C. or Common Market). The E.E.C., the trade colossus of Europe, is of vital importance to United States agriculture. In fiscal year 1960–1961 United States agricultural exports to the six countries comprising the bloc (Belgium, Netherlands, Luxembourg, France, West Germany, and Italy) were $1.1 billion, which was about one-third of total United States agricultural exports. During the past five years, United States sales of farm products to the E.E.C. countries have increased 29 per cent. An important part of these increases to the E.E.C. have been the rising shipments of feed grains to the Nether-

lands and Italy; increased exports of soybeans to the Netherlands, West Germany, Belgium, Luxembourg, and Italy; and a phenomenal increase in exports of poultry meat, primarily to West Germany and the Netherlands.

U.S. AGRICULTURE AND THE E.E.C.

The E.E.C. with its increased purchasing power and rising standards of living offers a strong potential for increased United States exports of farm products. This potential, however, will be vitally affected by the E.E.C.'s Common Agricultural Policy. In its formative stage today the development of this policy is of crucial importance to United States agriculture.[1] As it stands now the proposed Common Market agricultural policy is designed to be restrictive with respect to United States and other non-member countries' exports of wheat, rice, other grains, pork, and poultry and eggs. These commodities equal approximately 30 per cent of United States agricultural exports to the E.E.C. The E.E.C. plans to use a system of variable import levies to protect its own producers against imports of these commodities. These levies, which are to be used instead of fixed tariffs, are intended to offset the difference between world prices of commodities and desired price objectives in the Common Market.

Clearly, the challenge confronting the United States in the proposed E.E.C. policy is one which encourages agricultural self-sufficiency within the Common Market. Besides the need for a policy framework which permits bargaining with the E.E.C. and all nations of the free world for concessions which will lead to expansion rather than restriction of agricultural trade, the United States also needs to demonstrate the economic benefits of low-cost foods that our European allies should consider while establishing their agricultural and trade programs. The advantages of the Americas as food producers should be explained fully and presented frequently in discussions and negotiations. The United States has much to gain from using its already established productive capacity; Europe also has much to gain from using it. Such a goal is consistent with the current European thinking of aiding and abetting economic efficiency and productivity rather than hindering it.

CONCLUSION

In conclusion, the farm surplus, a unique American phenomenon, can be used as a bountiful blessing rather than a burdensome blight on behalf of increased world trade. The farm surplus can contribute to rising standards of living and the maintenance of world peace. The realization of these worthy goals depends on determined efforts to lower or eliminate trade barriers to the free flow of commodities across the national borders of the countries of the world.

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[1] For further reference, see the material on the tariff reductions negotiated in Geneva in March, 1962, pp. 111 ff. of this issue.

The effect of tariff liberalization on the United States economy and industry's continued support of protection are examined. This author concludes that historically "the tariff was a local issue in politics, and Congressmen came under pressure from manufacturers and employees in their districts to hold a tariff, or provide relief for an industry claiming injury as a result of increased imports." However, "the Tariff Commission has often found that failure to adjust to the domestic market, rather than foreign competition, has accounted for a firm's plight."

Industry, Trade and Tariffs

By William N. Leonard
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Economists are fond of stating: "Free traders win the arguments, but protectionists win the elections." The free trade arguments of Adam Smith, fortified by Ricardo's Law of Comparative Advantage, have received nearly universal acceptance by students of trade; the equities, economic and political, appear to be weighted on the side of those who advocate trade liberalization. Nonetheless, the strength of protectionism in the business world and in the halls of Congress never ceases to amaze the observer.

The fact is that, once erected, tariff walls crumble slowly. For the United States the Hawley-Smoot Tariff of 1930 established the peak of protection. Later, the Reciprocal Trade Act of 1934 provided for tariff reduction. The 1934 Act has been renewed repeatedly; after 28 years, it has succeeded in reducing tariff walls by approximately one-half.

Protectionism was domestic policy for a century, and many home markets were acquired by young industries behind the shield of tariffs. Though no longer infants, these industries bitterly oppose any tariff reduction which subjects them to increased competition from abroad.[1] Having grown up behind the tariff wall, these industries feel that its continuation is indispensable to their survival.

The post-war record indicates that congressmen do not respond as readily to the general arguments for trade liberalization—the benefits to consumers, labor, business, the nation, other nations—as much as they heed appeals from specific industries in their districts affected by a particular trade policy. During the 1950's surveys showed that most American opinion leaders, including a majority of businessmen, favored a reduction in import duties even though this resulted in injury to protected industries. On the other hand, congressional opposition to tariff reduction has increased since 1950.[2] Politically the tariff is a local issue, and congressmen pay more attention to appeals for continued protection from key constituents than they do to public opinion polls.

Some congressmen are protectionists in philosophy. Others may honestly believe

[1] "A case for assistance to those who are seriously injured by imports can be made on economic grounds alone; the injury results from a basic change in America's historic policy of protectionism." Don D. Humphrey, *American Imports,* New York, 1955, p. 482.

[2] See Percy W. Bidwell, *What the Tariff Means to American Industries,* Harper, New York, 1956, pp. 258–260.

that safeguarding a domestic industry and its laborers in their district from the injury which further imports would allegedly cause is in the national interest. Still others object to the fact that tariff negotiations by the State Department have involved a surrender of traditional congressional powers with respect to tariff-making. These factors combine to provide resistance in Congress, particularly in the House of Representatives, to efforts of the Administration to reduce tariffs rapidly.

U. S. TRADE IN 1961

By 1961, United States exports reached a record total of $20.1 billion, some $5.7 billion in excess of imports. While the export figure represented only 4 per cent of gross national product, it came to 8.5 per cent of all transportable goods produced in the country. For some industries, foreign sales made up a rather high proportion of total output:[3]

Industry	*Per cent of output sold abroad*
Railroad locomotives	51%
Metal forming tools	23%
Trucks	14%
Carbon black	35%
Construction and mining machinery	31%
Oil field machinery	31%
Lubricating oils	25%
Machine tools	22%

Imports of the United States averaged about $15 billion a year from 1959 to 1961. Approximately 42 per cent of our imports in 1961 consisted of raw materials vital to domestic manufactures. For example, we imported 100 per cent of our tin and industrial diamonds, 85 per cent or more of our nickel, bauxite, platinum, manganese ore, antimony and chrome ore, 55 per cent of our zinc, 53 per cent of our raw wool, and 34 per cent of our copper.[4] Another 23 per cent of our imports was composed of bananas, cocoa, coffee, tea, sugar and other food products. Finished manufactures made up the remainder, about 35 per cent.

U. S. EXPORTS AND IMPORTS BY CLASSES, 1961

	Imports (in millions)		*Exports* (in millions)	
Foodstuffs	$ 3,318	23%	$ 3,054	15%
Industrial materials	5,960	42%	5,833	30%
Finished manufactures	5,075	35%	10,932	55%
Total	$14,352	100%	$19,819	100%

Out of the $15 billion of commodities brought into the United States each year, Secretary of Commerce Luther Hodges estimated that 60 per cent had little or no significant competitive effect on domestic producers.

The Department of Labor estimated that in 1960, some 3.1 million Americans were engaged in the production, transportation and marketing of goods for export, a figure equal to 5.8 per cent of all domestic employment. Of this total, some 1.4 million were found to be in manufacturing, with the leading states being New York, Illinois, California, Ohio and Pennsylvania.[5]

TRADE EXPANSION

Despite the preeminence of the United States in world trade and the $5 billion export surplus of 1961, the Kennedy administration pushed vigorously for an expansion of trade in 1962. This would be achieved largely by agreements with the European

[3] Among agricultural crops, the following proportions of crops grown in the 1960–61 year were exported: wheat, 49%; rice, 57%; soybeans, 41%; cotton, 49%; tobacco, 29%; dried peas, 58%. These figures from Statement of Hon. Luther Hodges, Secretary of Commerce, in support of HR 9900 before House Committee on Ways and Means (87th Cong., 2d sess.), March 12, 1962, pp. 6–7.

[4] *Ibid.*, p. 8. Secretary Hodges stated that "we depend on imports for all or part of 30 of the 39 minerals considered essential to our industrial plant."

[5] "Domestic Employment Attributable to U.S. Exports, 1960," U.S. Department of Labor, January, 1962. Greatest dependence on exports, however, was found in southern and southwestern states, reflecting heavy exports of cotton, tobacco and other farm products.

Common Market to reduce tariffs. Greater exports would assist in meeting the cost to the United States of overseas defense expenditures, foreign aid, tourism and private investment. These costs had resulted in substantial deficits in the balance of payments in 1959, 1960 and 1961, with consequent loss of gold by the United States. The new trade policies had political as well as economic objectives. A State Department official noted:

> Taken together, the forging of closer economic ties between Europe and the U.S. and a combined U.S.–European effort to provide larger markets for the products of the developing countries of the world can be the free world's most telling response to the Communist economic challenge.[6]

Unless the United States negotiated tariff reductions on a reciprocal basis with the Common Market, domestic exporters would lose trade opportunities in this expanding area. But with lower tariffs to hurdle, United States exports would flow to Europe, diminishing the incentive of American manufacturers to invest behind the European tariff wall. This would reduce the outflow of capital needed, in part, for domestic investment.

The Trade Expansion Act was designed to permit the President to negotiate down to zero over a five-year period tariffs on commodities in which the United States and Western Europe together supply 80 per cent or more of the world's exports. These commodities, equal to half of this country's trade with Western Europe, include machinery of all kinds, transportation equipment, photographic supplies, metal manufactures, rubber goods, many chemicals, and a high proportion of consumer durable goods. In all these items, despite the competition from Western Europe, United States exports considerably exceeded imports in value.[7] On another list of items, the President would be empowered to reduce tariffs by 50 per cent within five years. Negotiations with the Common Market were to be conducted on an across-the-board basis.

Special Presidential authority was also sought to do away with "nuisance" tariffs (duties of less than 5 per cent) and to simplify the cumbersome machinery of "peril points" and "escape clauses." Industries already subject to escape clause action, or considered by the President essential to national defense would continue to be protected. Lastly, the government sought to cushion the shock of tariff reduction through a Trade Adjustment program offering assistance to import-sensitive industries and their workers.

The European Economic Community, or Common Market, early in 1962 concluded agreements to eliminate tariffs among its member states by 1965. With total income of the E.E.C. already growing at a rate of 6 per cent a year, and industrial production growing even more rapidly, the new Common Market treaties opened the way to a tremendous expansion of internal trade. Externally, the Common Market proposed to erect tariffs against outside imports, a fact that had induced Great Britain and other European nations to apply for membership in the Market. The possibility grew of a Western European federation, with 250 million persons and a gross national product more than half that of the United States. With sharply rising personal incomes, the West Europeans had arrived at the stage of mass consumption.

During the 1950's the Common Market increased its share of world trade and by 1960 exported more than the United States. While many exports did not compete with those of the United States, being different in models, styles and specifications, a great many industrial products of the E.E.C. did compete, and the elimination of internal tariffs could affect important United States exports, such as machinery, electrical equipment, instruments, finished chemicals, motor vehicles, iron and steel, and petroleum and products.[8]

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[6] Statements of Hon. George W. Ball, Undersecretary of State before the House Ways and Means Committee (87th Cong., 2d sess.), March 13, 1962, p. 9.

[7] Hodges, *op. cit.*, p. 33.

[8] A good analysis of the effect of the Common Market on U.S. industry is found in "The New European Market, a Guide for American Businessmen," Chase Manhattan Bank, New York, 1961.

After the birth of the E.E.C. more than 800 American firms undertook new operations in Western Europe, entered into joint ventures with European partners, or licensed the manufacture of their products to a European firm. From 1950 to 1960 the value of U.S. investment in Europe more than tripled.[9]

On the side of exports, Western Europe represented the largest overseas market for United States goods, absorbing $6 billion worth of American factory and farm products in 1960. About 25 per cent of this total consisted of raw materials, 5 per cent were fuels, 30 per cent, food and tobacco, and 40 per cent, manufactures.[10] United States Secretary of Commerce Hodges estimated that output of the Common Market would rise by more than 50 per cent in the next decade while its imports, in many cases, would double. He pointed to an explosive demand for consumer durable goods, and observed that if the people of the E.E.C. were to match American standards of living, they would require an additional 50 million cars, 50 million television sets and 135 million radios. Hodges has stated that, after tariff negotiations, United States exporters would obtain "a fair share of this emerging new market."[11] But without tariff reduction, an American compact car, for example would be taxed 22 per cent in Belgium, increasing its price by $400. A United States State Department official has noted that the general level of United States tariffs approximates that of E.E.C. tariffs, so that the two parties would in any trade negotiation be starting on an even basis and could reduce duties at roughly the same pace.[12]

United States' tariffs are neither the highest nor the lowest in the world. For many reasons,[13] it is next to impossible to present a precise comparison between the tariff levels of countries. However, the Joint Economic Committee has published a qualified list of average tariff levels for the principal trading nations.[14]

AVERAGE TARIFF LEVELS OF INDUSTRIAL PRODUCTS, 1961

Country	*Per cent*	*Country*	*Per cent*
Japan	19	Australia	12
Austria	19	United States	11
United Kingdom	17	Norway	11
		Benelux	11
New Zealand	17	Germany	9
Italy	16	Sweden	8
Canada	16	Switzerland	8
France	14	Denmark	6
E.E.C.	14		

United States tariff rates have a considerable range. Of 5,000 items on the United States tariff schedule, 1,000 are admitted duty-free, while several hundred more carry a tariff of less than five per cent of value, often referred to as a "nuisance" tariff. On about 900 items the United States levies a duty of 30 per cent or more, making the tariff either prohibitive or most burdensome, and providing a solid wall of tariff protection. For these high-rated commodities (see table page 107) the E.E.C. had lower rates. Whereas one-sixth of the rates in the United States tariff exceeded 30 per cent, less than one-fifteenth of Europe's rates exceeded this figure.[15]

Section 7 of the Trade Agreements Extension Act required the Tariff Commission to set, for each rated commodity, a "peril point" or tariff level below which reduction would cause serious injury to domestic producers. At best, the calculation of the peril

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[9] *Ibid.*, p. 27.

[10] *Ibid.*, pp. 23–4. See also Walter Buchdahl, "Rapid Growth of Common Market Spurs Import Demand," *Foreign Commerce Weekly*, U.S. Department of Commerce, Washington, D. C., July 31, 1961.

[11] Hodges, *op. cit.*, p. 15.

[12] Ball, *op. cit.*, p. 9.

[13] Differences in methods of valuing imports, variations in the use of tariffs, difficulties in giving proper weight to commodities, make evaluation difficult. Statistical problems enter in also: where a country has half of all items on a free list, and the rest excluded by high tariffs, then its tariff level is zero.

[14] Subcommittee on Foreign Economic Policy, Joint Economic Committee, U.S. Congress (87th Cong., 1st sess.), 1961.

[15] George W. Ball, *op. cit.*, p. 10.

point for an industry represents an arbitrary and speculative assignment for the Commission. When a peril point has been reached and the volume of imports threatens output and earnings of the domestic industry, the Tariff Commission is required to investigate and recommend whether the industry should be allowed to use the "escape clause" in the tariff and return to a higher level of protection. The Commission not only looks at the lowered employment and earnings of the industry, but determines whether this results from greater imports or from domestic competition, and what the industry has done to become more efficient.

Since the end of World War II, trade negotiations by the United States have affected tariffs on approximately 3,000 items. During this period, after 129 escape clause investigations, only 35 industries have been able to prove to the Tariff Commission a sufficient injury resulting from tariff reductions to justify relief. These 35 industries accounted for less than one-ninth of one per cent of national output, and employed less than 65,000 workers.[16]

The United States does not utilize quota systems, although agreements concluded with Western Europe and Japan with respect to textile imports late in 1961 limited shipments of textile products to the levels reached in fiscal 1961.

However, the United States provides unusual protection through the "invisible tariff," the system of valuations and "red tape" in customs, which involves delays, expense and inequities to importers. The Trade Agreements Act of 1954 removed some of the most disagreeable features of the system for importers, but the tariff remains.

WHAT INDUSTRIES ARE PROTECTED?

Most American industries have no need for protection in order to compete in world markets. High wages paid by domestic industry offer no handicap to our exports, since three-fourths of total exports of the United States come from industries with hourly wages above the average.[17] By contrast, the United States has experienced considerable import competition in many low-wage industries, for example, glove manufacturing, toys, watches and clocks, surgical instruments, and pottery. All of these industries have high tariff walls (30 per cent or more) designed to protect them.

HIGH-RATED COMMODITIES, UNITED STATES TARIFF, 1961

Commodity	*U.S. Rate (% of value)*
Clocks, watches & parts	51–67
Safety razors	85–255
Surgical instruments	45
Nail clippers	45
Cigarette lighters	50
Microscopes	25–35
Lenses	40
Surveying instruments	35
Household chinaware	30–60
Fish hooks	30
Pruning shears	65
Citrus fruit juices	99
Ethyl alcohol	56
Talc products	30–45
Colors, dyes, stains	40 up
Plywood	40
Tungsten ore	50
Barium dioxide	93
Woven woolen fabrics	49
Lace curtains	63–75
Sheets and pillow cases (not cotton)	40 up

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[16] Hodges, *op. cit.*, p. 39. In late 1961 the Tariff Commission found that for 9 articles the tariff was already below the peril point, though the industries had not complained. After investigation, the Commission found no tariff relief justified in 6 of the 9 cases.

[17] Statement of Secretary of Commerce Hodges, *op. cit.*, p. 7. A table presented by Secretary Hodges showed that 6 groups of industry, with hourly wages ranging from $2.28 for electrical machinery workers to $2.81 for producers of motor vehicles, produced nearly 60 per cent of all manufactured products exported in 1960. The average wage for *all* manufacturing industry in that year was $2.26 an hour.

For most industries, high wages are more than offset by high productivity resulting from superior machinery and skills. For example, the United States coal miner earns eight times as much per hour as a Japanese miner but produces 14 times as much coal. As a result, labor costs per ton of coal in the United States are less than in Japan, and this country exports a large volume of coal to Japan ($53.4 million in 1960). Data on labor cost per unit of output for 1959 indicated that the U.S. held a strong competitive position among export nations.[18]

Advantages for domestic industry derive from generally lower prices of raw materials and fuel in the United States[19] and from the quality of American manufactures. As an example of the latter, American commercial planes, both piston and jet, sell for considerably more than those of other countries. Yet foreign as well as domestic airlines prefer American products because of their speed, comfort, dependability and lower fuel consumption. Other advantages for United States industries include costs of distribution to the domestic market, ease of delivery and satisfactory repair services.

However, while productivity more than compensates for high wages for most American companies, certain industries with limited capital per worker, and high labor costs per unit of output are vulnerable to competition, foreign and domestic. In United States plants labor costs generally represent 20–25 per cent of factory sales price. P. W. Bidwell found that in woolens the ratio was 30–35 per cent; in bicycles, 30 per cent; in chinaware, 60 per cent; in hand-fashioned glassware, 65 per cent; in watches, 80 per cent.[20] The problem of these industries, all extremely protectionist, was not the low wages paid abroad, but the high wages prevailing in United States industries that had high productivity.

These labor-intensive industries blame foreign competition for their troubles and form the hard core of the protectionist bloc. They are on the high duty list (30 per cent tariff and up), a list which includes a wide variety of textiles, many sections of the chemical industry, plywood and hardwoods, scientific and precision instruments, razors, scissors and shears, lenses and microscopes, watches and jewelry. Other protectionist forces consist of those who have gained temporary relief through escape clause action, such as makers of watches, bicycles, linen towels, spring clothespins, clinical thermometers. Producers of lead and zinc are also under escape clauses. At other times industries with tariffs from three per cent to 30 per cent—ranging from electronics to tuna fishing—may appear to testify for continued protection against imports, and against administrative action to reduce their tariffs. Often they contact the Tariff Commission to complain about imports, to stress a peril point, to ask for relief.

With congressmen they may have more influence than with the Tariff Commission. Though many of these industries are small in total sales, they tend to have sizable numbers of workers associated with them, a group who may join an individual company in complaining about foreign competition with more telling effect than the company itself. Frequently, protected and labor-intensive industries are located in small communities dependent on them for employment, and hardship is pinpointed. When a plant closes down, its owner may leave the industry, or move operations to the South, or even overseas, but the employees remain in the area.

The textile industry, while large in the aggregate, consists in actuality of many small producers of many different product lines, located for the most part in many small communities of New England and the South. Pressure for protection from the constituent segments of this industry has been particularly great.

Do these industries require continued protection? They often tell Congress that lower tariffs would destroy their entire industry, but the fact is that lower tariffs only affect

18 For an account of comparative labor costs, see "Questions and Answers on the New Trade Expansion Act." U.S. Department of State, Washington, D.C., 1962.

19 Coal, oil and power prices are low in the U.S. in comparison with Western Europe and Japan.

20 P. W. Bidwell, *op. cit.*, p. 283.

the marginal firm in an industry, which is usually one already afflicted with high labor costs per unit of output. Bidwell found that tariff reductions undertaken over a period of 20 years in the eight industries that he examined had not been crucial in their effect upon sales and employment except in the case of hand-fashioned glassware and household china.[21] Even in these industries, many firms had made a satisfactory adjustment to changing competitive conditions.

Import-sensitive industries have available a number of "escapes" besides asking for greater tariff protection. They may develop new designs and a distinctive line of products, as have Steuben glass and Lenox china, both now immune to foreign competition because of quality. They may obtain the benefits of standardization, as did the electrical equipment, chemical, and iron and steel industries.[22] Some manufacturers may become importers of competitive products; for example, American firms manufacturing watches also import Swiss watches and parts.

Other industries have sought to improve their competitive position through diversification. Bicycle manufacturers have used their facilities in the off-season to make lawnmowers, air conditioners, and other equipment. Watchmakers also manufacture watch cases and bracelets, men's jewelry and electronic apparatus.

Frequently, careful analysis of the market may indicate product changes that will permit successful competition. This has happened to American producers of transistor radios, tennis oxfords and women's slippers, threatened by low-priced Japanese imports.[23] Economic adjustment may also take the form of community self-help, as has occurred in New England where the loss of textile manufacturing, for many years the dominant industry in New England, led to massive efforts to bring in research laboratories, chemical plants, electronics manufacturers and many firms of high productivity. As a result, the region has up-graded its labor skills and income.[24]

Federal assistance to firms affected by tariff reductions has been recommended (1) because of inadequacy of state and local assistance, and (2) because injury results from a shift in federal trade policy. The widely-publicized McDonald proposal called for assistance to companies found by the Tariff Commission to be suffering as the result of tariff reduction, as well as to employees and communities. Under the program industries would receive technical assistance and special consideration for defense contracts. Employees would become eligible for adjustment assistance, including counseling, retraining, and moving allowances. Although the Randall Commission did not accept the McDonald proposals, they were incorporated in bills introduced in 1954 by the then Senator Kennedy of Massachusetts, Senator Humphrey of Minnesota and by Congressman (now Senator) Williams of New Jersey.[25] Similar provisions were included in the Trade Expansion Act of 1962.

Although the Reciprocal Trade program launched in 1934 has been in existence for more than a quarter of a century, it has succeeded in reducing tariffs on industrial products only by half. In recent years, because of the revival of Western Europe and Japan as major exporters of manufactures and the increased competition in domestic markets, many American industries have bitterly opposed further tariff reductions. However, the opportunities for trade in the Common Market (provided tariff barriers on both sides of the Atlantic can be reduced) have induced the Kennedy administration to push vigorously for the Trade Expansion Act of 1962. A deficit in the balance of payments resulting from large overseas spend-

[21] Other industries had adjusted to the competitive situation, including watches, bicycles, iron and steel, woolens and worsteds, synthetic organic chemicals, and electrical equipment.

[22] Bidwell, *op. cit.*, p. 266.

[23] Hodges, *op. cit.*, pp. 35–37.

[24] W. S. Salant and B. N. Vaddara, "Import Liberalization and Employment: the Effects of Unilateral Reductions in U.S. Import Barriers," Washington, D. C., 1961.

[25] Otto Reischer, Trade Adjustment in Theory and Practice, Subcommittee on Foreign Economic Policy of the Jt. Econ. Committee (87th Cong., 1st sess.), Washington, D. C., 1961.

ing for defense, foreign aid, economic assistance, tourism, and private investment, gave additional cause to the drive to raise exports. During the 1930's an English Prime Minister had said "England must export or die." Now President Kennedy had caught the public's imagination: "We must trade or fade."

The stubborn persistence of tariffs in the United States resulted in part from the century of protectionism which had shielded many industries from foreign competition. These industries wanted their advantage maintained. It also stemmed from the fact that the tariff was a local issue in politics, and Congressmen came under pressure from manufacturers and employees in their districts to hold a tariff, or provide relief for an industry claiming injury as a result of increased imports. Large industries with high productivity, which stood to benefit from expanded trade, did not solidly back the new legislation before Congress, and often failed to appear at all, but industries feeling or fancying injury voiced loud disapproval.

The record indicates that high-wage industries account for three-fourths of American exports and that large manufacturers, with the efficiencies of mass production, diversification and new technology, are affected by lower tariffs only at the fringes of their industry. Their reaction to the Trade Expansion Act was summed up by the president of the Standard Oil Company of New Jersey:

> We must regard economic competition from our friends and allies in the free world just as we regard competition among ourselves—as a spur, an incentive, a stimulant, leading us to innovation, research, cost reduction, improvement of efficiency in every direction.[26]

Small-scale and labor-intensive industries, with high ratios of labor cost to total cost, may be hurt by foreign competition ensuing from lower tariffs. Within these industries, the marginal firms will be hit hardest. These tend to be located in small one-industry communities, making the impact of displacement greater. But even in these cases, the Tariff Commission has often found that failure to adjust to the domestic market, rather than foreign competition, has accounted for a firm's plight. Measures taken by affected firms to reduce costs, to diversify, and to improve quality, have often sufficed to restore sales. In some cases, companies have gone out of business, but the number of jobs lost is of minuscule proportions. In those firms where the Tariff Commission has found sufficient reason to grant relief under the "escape clause" provisions of the tariff since World War II, employment totaled only 65,000. Trade adjustment assistance was to be provided to such firms and to displaced employees under the new Trade Expansion Act.

Weighed against the possible gains in employment resulting from greater exports under the new trade program, the potential losses in employment seemed minor. Secretary of Labor Arthur Goldberg has estimated 150,000 new jobs for each extra billion dollars in exports under the new Trade Expansion Act of 1962 with possible loss of jobs at only 18,000 a year. Compared with the changes in domestic markets brought about by new technology, by shifts in defense spending, by the movement of industry to new sections of the country, and by the business cycle, foreign competition has a limited impact on industry.

As tariffs are reduced, the impact can be minimized not only by trade adjustment measures but by general policies directed at providing full employment and a satisfactory rate of growth for the entire economy.

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[26] M. J. Rathbone, President, Standard Oil Co. of N. J. before the Economic Club of Detroit, April 9, 1962, published in the Congressional Record, April 25, 1962.

The U. S.—Common Market Agreement

On March 7, 1962, the U.S. government announced a tariff agreement reached in Geneva among the U.S., the six members of the E.E.C. (Common Market) and 18 other countries.[1] Excerpts from the White House announcement follow:

These negotiations, the largest and most complex in the twenty-eight-year history of the Trade Agreements Act, produced results of great importance to the United States. The commercial importance of the negotiations was matched by their political significance, since they constituted the first test of whether the United States and the European Economic Community—the so-called European Common Market—would be able to find a mutual basis for the long-run development of economic relations critical to both areas.

The European Common Market, created in 1957 by France, Germany, Italy and the Low Countries in the Treaty of Rome, establishes a giant economic community in Western Europe. It encompasses a market whose imports are greater than those of the United States itself, with a growth rate well in excess of the current United States growth rate. In accordance with their treaty, the six member countries of the European Community are rapidly eliminating tariffs within the community and are establishing a common external tariff for the community which will apply generally to the products of outside countries including the United States. At the same time, the six member countries are merging their separate national programs for the protection of domestic agriculture into an integrated community-wide program known as the common agricultural policy. . . .

[1] The other nations are Austria, Cambodia, Canada, Denmark, Finland, Haiti, India, Israel, Japan, New Zealand, Norway, Pakistan, Peru, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

In the face of these developments, the United States' objectives in the negotiations were twofold: (1) to secure reductions in the common external tariff which would expand trade between the European Economic Community and the United States and (2) to ensure that the common agricultural policy took account of the interests of United States agricultural exporters. These objectives were sought in the framework of the long-run United States policy of maintaining and expanding trading relations among free world nations.

These results were achieved. In general, the European Economic Community agreed to an exchange of concessions involving a phased 20 per cent reduction in most of the industrial items making up its common external tariff. The community's freedom to negotiate on certain agricultural items was hampered by the fact that its common agricultural policy was still in process of development. Nevertheless, it agreed to various arrangements—including a number of important tariff cuts—which will ensure for the present that most agricultural exports of the United States will be able to maintain their position in the community's markets.

The United States, operating under the severely circumscribed authority of the present Trade Agreements Act, was unable to offer concessions of equal value to the Europeans. This was true even though the President went below the peril-point rates recommended by the Tariff Commission on a number of items. In spite of the inability of the United States to offer equivalent conces-

sions, the community agreed to close the negotiations on the basis of the concessions finally offered by the United States.

An appended table summarizes the trade value of concessions exchanged with the E.E.C. and other countries, in terms of the amount of trade during 1960 in the items covered. In the exchange of new tariff concessions in the form of reductions or bindings at fixed levels, the United States received concessions on a trade volume of approximately $1,600,000,000 in return for adjustments and commitments, to take effect in most cases in two steps one year apart, on United States tariffs covering commodities with a trade volume of $1,200,000,000.

In other negotiations for compensatory tariff adjustments, where contracting members of the General Agreement on Tariffs and Trade (GATT) had altered or withdrawn previous concessions, the United States received concessions on a trade volume estimated at $2,700,000,000 to replace concessions withdrawn or modified in the amount of $1,600,000,000. The central feature of this phase of the Geneva negotiations was the replacement of tariff concessions granted by the E.E.C. member states before they formed the Common Market with concessions to be incorporated in a new common external tariff. The E.E.C. adjustments thus made in the Common Market tariff affect trade valued at $2,500,000,000.

Compensatory tariff concessions on the part of the United States were limited, covering trade valued at $30,000,000.

The new tariff reductions obtained from the E.E.C. include items of major importance to United States export trade to the Common Market area. Most of these concessions were reductions of 20 per cent. There were, however, a number of reductions of more than 20 per cent, the most important of these being reductions of 24 and 26 per cent, respectively, in the common tariff on automobiles and parts; in dollar terms, this reduction will average to about $126 per automobile exported to the European market. . . .

Principal concessions granted by the United States included automobiles, certain classes of machinery and electrical apparatus, certain types of steel products and some classes of glassware. The United States automobile concession, which accounted for a substantial part of the total amount of trade affected by the United States concessions, averages approximately $21.50 per automobile imported into the United States market.

For various technical reasons, it is impossible to make exact comparisons of the general tariff levels of different countries. Nevertheless, it appears that as a result of the negotiations just concluded at Geneva, the general tariff level of the European Economic Community is roughly comparable to that of the United States. In some items, the United States level exceeds that of the community; in other items, the opposite is the case. The major difference in the two tariff structures is that the E.E.C. has fewer prohibitively high tariffs than the United States as well as fewer extremely low tariffs.

The similarity in general levels provides an opportunity for even more effective tariff negotiations in the future. However, if the United States is to exploit this opportunity, it must be equipped with new statutory powers, since the President has now exhausted his powers to grant tariff concessions under existing law.

In its negotiations for new concessions at Geneva, the United States dealt not only with the E.E.C. but also with Austria, Cambodia, Canada, Denmark, Finland, Haiti, India, Israel, Japan, New Zealand, Norway, Pakistan, Peru, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

Negotiations for compensatory concessions, in addition to those with the E.E.C., were held with Australia, Brazil, Canada, Ceylon, Finland, Haiti, Indonesia, Japan, the Netherlands Antilles, Pakistan, Peru, the Republic of South Africa, Sweden and Turkey.

While negotiations by the United States with all the named countries except Spain have been completed, final agreements have not been concluded with some countries, which have either not completed their negotiations with other countries or have not yet completed . . . domestic procedures. . . .

* * *

The tariff conference, which opened in Geneva in September, 1960, was convened by the contracting parties to the General Agreement on Tariffs and Trade at United States initiative. The Geneva conference was open to all contracting parties to the G.A.T.T., 35 of which participated in the negotiations. Geneva was thus the scene of a major multilateral negotiation for the lowering of free world trade barriers.

Nevertheless, attention was largely centered on the European Economic Community and its common external tariff. While customs unions are not a new thing in the world community, no customs union before the Common Market had so much significance for world trade and, indeed, for the shaping of future political and economic forces in the world.

The outlook on the whole was for a broadly liberal Common Market approach to international economic affairs. Even before the conference opened, there was outstanding an offer on the part of the European Economic Community to reduce by 20 per cent most of its tariff rates on industrial products, conditional on the grant of reciprocal concessions by other countries. The United States was a principal supplier of most of the items affected.

Despite the generally propitious atmosphere in which the negotiations were begun, it was by no means certain that any useful agreement could be reached. United States negotiators came to the Geneva conference empowered with the limited authorities contained in the Trade Agreements Extension Act of 1958. Under the law, the maximum tariff reduction they could offer was generally fixed at 20 per cent. The negotiating list which they were authorized to use had been established after a rigorous screening by the Interagency Trade Agreements Committee and after very substantial further eliminations as a result of the Tariff Commission's peril-point findings under Section (a) of the Trade Agreements Act. Despite the fact that the United States had a very large export trade at stake and despite the major political opportunity offered by the negotiations, it was apparent when the United States negotiating instructions were originally drawn that the United States would be unable on this basis to meet the E.E.C. request for adequate reciprocity.

The negotiations with the E.E.C. were of unrivaled complexity. They fell into two phases. The purpose of the first phase was to meet the requirement of G.A.T.T., Article XXIV 6, providing for new tariff concessions by a customs union to replace those which had been granted previously by the member states.

* * *

The outcome of this phase of the E.E.C. negotiation brought direct commitments to the United States on common external tariff rates covering exports totaling $2,500,000,000 in 1960, compared with a total of $1,400,000,000 of trade that had been covered by concessions which the Common Market member nations had previously granted to the United States.

In the second phase of the negotiations, the so-called "reciprocal round," the E.E.C. confirmed the offer which had been provisionally put forward in May, 1960. Specifically, the community offered a reduction of 20 per cent on industrial tariff rates, subject to a few exceptions. The linear reduction offer did not apply to agricultural commodities, but in the course of the negotiations reductions on certain agricultural products were made.

As the negotiations proceeded, it became clear that the United States bargaining position was inadequate to take advantage of the E.E.C. offer. A deadlock ensued and a collapse of the negotiations was threatened, with all the adverse consequences that this portended for American economic interests and Western political cooperation.

The Tariff Commission's peril-point findings were, therefore, carefully re-examined and a number of additional items were found in which it appeared possible to offer tariff reductions. . . .

* * *

A number of such items, covering $76,000,-

(*Continued on page 117*)

BOOK REVIEWS

HISTORY AND POLITICS

PROPHETS OF THE REVOLUTION. BY ROBERT J. ALEXANDER. (New York: The Macmillan Company, 1962. 322 pages, bibliographical note and index, $4.95.)

Professor Alexander, author of several other works on Latin American affairs, presents us with a shooting gallery of Latin American leaders all of whom undertook the urgent, violent and dangerous task of hoisting their countries into the twentieth century. José Battle y Ordóñez of Uruguay, Lázaro Cardenas of Mexico, Arturo Alessandri of Chile, Victor Haya de la Torre of Peru, Rómulo Betancourt of Venezuela, Pepe Figueres of Costa Rica, Lûis Muñoz Marin of Puerto Rico, Victor Paz Estenssoro of Bolivia, finally Vargas, Perón and Fidel Castro, all sought to modernize their countries, raise productivity and living standards, develop new political institutions. Empiricism rather than theory marked their approach; revolution, demagogy, corruption and conflict often followed in their wake. The marriage of Latin America and reform remains a shotgun marriage to our day.

Unfortunately, while Professor Alexander's theme is fascinating, it is also vast. Too vast. His essays are straightforward but considerations of space make them seem superficial and, for the work of an economist, oddly indifferent to economic aspects. One is left wishing for more. This may be a tribute to the author's skill in stirring the appetite, or simply a feeling that there is so much more to be said.

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COLOMBIA. A CONTEMPORARY POLITICAL SURVEY. BY JOHN D. MARTZ. (Chapel Hill: The University of North Carolina Press, 1962. 336 pages, annotated bibliography and index, $7.50.)

Thanks to this scholarly work by John D. Martz, the story of dictatorship, anarchy, and civil war which have been the fate of the Colombian people for the past 15 years is now in print. Although it is not definitive, it is an intelligent and admirable synthesis of the sources presently available.

A study in comparative government, it takes up the four regimes in power from 1945 through 1960 and superbly depicts the character of each. The interpretation is balanced, for the author makes an honest effort to see both the positive and the negative sides. The coalition government of Ospina Pérez (1946–1950) is seen as one that was responsible and well-intentioned; but owing to its conservative political philosophy and its need to rely on reactionary support, it was unable to effect concrete solutions.

The reactionary government of Laureano Gómez (1950–1953) is presented as a government of principle and sound orthodox economics, but one that had an uncompromising character and embarked on a program to turn back the clock. The military government of Rojas Pinilla (1953–1957) is described as a brutally tyrannical government, not so much out of design as out of a lack of political experience and incompetence. The bipartisan government of Lleras Camargo (1958–   ) is presented as a government of high integrity, but one which, owing to its bipartisan nature, is unable to move ahead with reforms as fast as is necessary

to meet the growing demands of the lower class.

This book offers more than a comparative study; it is a history of the period. The author is mindful of the importance of the progression of time. Therefore, he respects chronology and by placing events in their proper historical perspective avoids the distortion present in many comparative studies. Partly as a result of this and partly due to the author's ability to write effective narrative, the book makes fascinating reading.

In addition, the study is placed in a comprehensive social and intellectual context. The proper social milieu is created as the author describes the roles of the church, the military, the government bureaucracy, the labor unions, the employers associations, and the student organizations in relation to the actions of the major political parties; while the effect of the ideological and intangible factors are brought in by discussing the persuasions and idiosyncrasies of the principal political leaders.

Here is an informative book on the operation of the Colombian political system and the roles of the military and the Communists in present-day Colombia. It is also an example of political science and contemporary history at its best.

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SOVIET MAN AND HIS WORLD. BY KLAUS MEHNERT. Translated from the German by Maurice Rosenbaum. (New York: Frederick A. Praeger, 1962. 300 pages and index, $5.95.)

As long ago as the middle of the nineteenth century, Nikolai Chernyshevsky had heralded the coming of the new man, the hardened revolutionary, who would be bold, resolute and ruthless in his determination to achieve the one great end of human liberation. Later, during the first days of the Revolution, Trotsky and Lenin often spoke of the need to break with the Russian past of Oblomovism and create a new Soviet man whom no obstacles could intimidate, for whom no tasks would be too difficult. Klaus Mehnert, a German journalist of long acquaintance with Russia and Soviet affairs, has now written an examination of contemporary Soviet society and attitudes in order to determine to what degree this goal of human transformation has been achieved. His purpose, as he puts it in his introduction, is to determine whether Soviet man is more "man" or more "Soviet."

In pursuing his inquiry, Mehnert has relied upon his own extensive travels within Russia (he has been to the Soviet Union 13 times during the last 30 years), the contemporary Russian novel and theater, the press and finally the most recent analyses of Soviet society by American sociologists and historians. He examines Russian attitudes toward the family, prosperity, property, getting ahead in life, equality, freedom of thought and the outside world, to mention only a few of his topics at random. He concludes that, although the modern Russian is not the Russian our forefathers knew or the Russian of Dostoyevsky's novels, neither is he the cold-blooded fanatic that the Bolsheviks had set out to create. He is a man who is apolitical, who is hungry for personal security, who has a highly developed sense of class differences and who is above all desirous of freedom of thought.

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STREET WITHOUT JOY: INDOCHINA AT WAR, 1946–54. BY BERNARD B. FALL. (Harrisburg, Pa.: The Stackpole Company, 1961. 322 pages, appendix and index, $4.95.)

From 1946 to 1954, France fought in the jungles and rice-paddies of Indochina in a vain attempt to preserve this part of its overseas empire. Bernard Fall tells the story of this grim, grueling, often brutal,

(*Continued on page 118*)

U.S. AND COMMON MARKET

Continued from p. 70

of the President's program. To increase exports we have to take other measures. We can indeed increase our exports vis-à-vis our imports if the foreign countries make larger trade concessions than we. On the basis of past history, this is not a likely outcome.

In part, the President's success with this unusual program is the result of great political wisdom. Unlike the original suggestions that were made, the President has agreed to deal with the industries that would suffer greatly. In this way he has obtained the support of some of these industries, without which support he could never have achieved adequate backing for this program. Thus, recently the President supported the unanimous proposal of the Tariff Commission that special protection be made available to the glass and carpet industries. This particular action has been greatly criticized by various groups as being contrary to the new program.

In his March 29 news conference, the President defended his approval of the unanimous recommendation of the Tariff Commission that the tariff on carpets and glass be increased. *The New York Times* of March 30 was critical of the decision and the manner of defending it.

The President's position seems unassailable to the writer. For the President realizes that trade policy is not merely a doctrinaire matter. He has launched the most advanced trade program in our whole history. Recognizing the need of a drastic overhaul of our trade policy in response to the great growth, current and potential of the rich Common Market, the President seeks the means of penetrating this vast market. The objective is to be achieved increasingly by across-the-board bargaining; this will tend to disregard damages to our industries (the backbone of policy since 1934). This makes it all the more important that the escape clause and peril point should be modified, not scrapped.

Finally, the President seems to me to be absolutely right in raising the problem of the balance of payments here. In the years since 1934 we have acquiesced as Europe increased its restrictions on trade even as we lowered ours. A major support for these policies was the need of discouraging United States exports to Europe and stimulating European exports to the United States in a period of adverse balance of payments for Europe and dollar shortage. A cure for dollar shortage was more exports to the United States. Similarly, in the current situation, Europe should open her gates to United States exports more than we open our gates to European exports. The carpet and glass decisions are consistent with this view.

A realistic, not a doctrinaire, position will assure the success of the President's policy.

U.S. TRADE WITH CANADA

Continued from p. 76

Common Market should, by an offer of a mutual reduction of tariff barriers, be induced to turn outward rather than inward. But these tariff reductions should be made available to the world at large, not used to form any exclusive partnership. Canada has at least as much to gain from such negotiations as the United States. Her future lies, as she professes to believe, in a multilateral world.

U.S. TRADE IN LATIN AMERICA

Continued from p. 81

mon Market, with its African Associated Territories.

Both the United States and Latin America have sought to improve their commercial bargaining power with the West Europeans. However, these efforts may well be insufficient, and it seems likely that in one way or another, the two parts of the Hemisphere will have to work out some common method of dealing with this crucial problem. A Western Hemisphere Common Market is only one of the alternatives.

THE NON-ALIGNED NATIONS

Continued from p. 87

restrictions has been imposed by more advanced countries. Although it is too much to expect that advanced countries would abolish their tariffs and other restrictions on textiles and other manufactures from less-developed countries, they might very well establish low or even duty-free quotas on manufactures from less-developed countries.

The Trade Expansion Act of 1962 is a start in the right direction and will have the effect of increasing all world trade including the trade with less-developed countries. It is, however, only the beginning and should be extended in the direction of more rapid cuts in tariffs which impinge primarily upon less-developed countries; it should provide special arrangements for the expansion of exports of manufactures from less-developed countries.

TRADE AND THE SOVIET BLOC

Continued from p. 94

their industrialization plans, they depend on it to the extent of 30 per cent of their import needs. This is why the Soviets display a certain nervousness about the Common Market which might place them at a disadvantage in relation to the member countries. If they would act as a group, the Western countries now have a good chance to find the Soviets disposed to negotiate and standardize certain commercial practices. The Soviets' insistence on discount allowances, generous credit conditions, low royalty payments, short delivery schedules and rigid penalties often went too far and, due to the lack of any agreed-upon rules in these matters, gave them substantial advantages at the cost of their Western trade partners. The concept of dumping would also need to be re-defined to protect the free world's interests against the built-in propensity to dump that stems from the general method of operation under the state trading system. Moreover, a code of fair trade practices between the Western and state trading nations could be negotiated which would cover such unsettled questions as legal protection of patent rights, reciprocal equality of status of trade executives (whether they represent state trading organizations or private firms), arbitration of commercial disputes, right of direct contact with the producer or the consumer of traded commodities and others.

So much for the recommendations that the experts on Soviet trade presented in their printed reports and in their testimonies. The 500 pages of the hearings records leave the reader without a doubt that, even should the United States decide not to resume immediately its trade with the Soviet bloc, it would definitely gain in the long run by its close support of West European trade interests. It could greatly facilitate the forming of a common front for negotiations with the Soviet bloc by new, liberal legislation pertaining to export controls and export credits; the existing laws are outdated and need to be revised. In this way the United States would remove one of the old causes of frequent disagreements with its Western allies and with the Soviet Union. This would strengthen the partnership spirit among the members of the Atlantic community and lend stature to the group in its ideological and economic contest with the East. To the uncommitted observers of this contest it would help demonstrate the invalidity of Marx' assumption that the Western-type societies are doomed to self-destruction because they are unable to co-operate and to control the forces of their growth.

U.S.–COMMON MARKET AGREEMENT

Continued from p. 113

000 of United States imports, were selected to provide a new bargaining offer. This action broke the deadlock in the negotiations.

Agricultural commodities exported by the United States were included in both the reciprocal and the compensatory phases of the Geneva negotiations with the Common Mar-

ket. These negotiations involved special difficulties, primarily because the E.E.C. was concurrently developing its common agricultural policy. These difficulties were an additional cause for the prolonged period of the negotiations.

* * *

In the table which follows, there is summarized the trade coverage of the concessions exchanged by the United States with other countries during the Geneva conference.

RECAPITULATION OF TRADE COVERAGE OF CONCESSIONS EXCHANGED

(Direct concessions: Estimates based on 1960 trade)

1. Reciprocal negotiations for new concessions:

	Trade Value of Concessions Obtained By U.S.	Trade Value of Concessions Granted By U.S.
With E.E.C. . . .	$1,000 Million	$795 Million
With other countries	$575 Million	$430 Million

2. Article XXIV:6 compensatory negotiations with the E.E.C.:

	Trade Value of Concessions
Previous concessions by member states, to be replaced by E.E.C. concessions	$1,400 Million
Concessions granted by E.E.C.	$2,500 Million

3. Other compensatory negotiations:

	Trade Value of Concessions
Concessions withdrawn or modified by other countries . .	$220 Million
Compensatory concessions to the U.S.	$200 Million
Concessions withdrawn or modified by the U.S.	$85 Million
Compensatory concessions by the U.S.	$30 Million

Further details concerning the agreements concluded at Geneva are contained in a publication entitled "Analysis of United States Negotiations," which has been issued in two volumes. Volume I describes the agreements with the E.E.C. and the reciprocal agreements for new concessions. Volume II describes the compensatory negotiations. These publications may be purchased from the Superintendent of Documents.

BOOK REVIEWS

Continued from p. 115

war, with feeling and clarity. Not only does he deal with the details of the fighting and the ever shifting battle lines, and of the men who fought there, but he links military operations within a political framework. Indochina was a tragedy for France, and a major defeat for the West.

His early pages deal with the 1940–1945 background, when Japan forced a hapless Vichy government to accede, with American acquiescence, but not without a fight, to its expansionist demands. But the major "villain" was the United States. By its shortsightedness and preoccupation with legalisms, the United States helped promote the downfall of the West.

There are many vignettes of the men who fought in Indochina. The major battles of the eight year war are well presented. Indeed, Fall's work is a seminal military history of the Indochina conflict.

He observes that the West can learn much from the Indochina conflict. For example, the war showed that "serious studies are almost totally lacking in such fields as modern river warfare and the use of rivers as vital supply lines in countries where the road and rail net is destroyed or inadequate; that swamp-going units cannot be improvised with hit-and-miss equipment and their tactics developed at the last moment on a trial-and-error basis; that aerial reconnaissance and ground support must adopt an entirely new set of rules when confronted with enemy and friendly units under an unbroken canopy of trees.

There are indications that we have learned these lessons; but there is less definite cause for optimism that we have moved rapidly and extensively enough to implement the decisions that must be made.

A.Z.R.

THE MONTH IN REVIEW

A CURRENT HISTORY Chronology covering the most important events of June, 1962, to provide a day-by-day summary of world affairs.

INTERNATIONAL

Berlin

June 7—In a diplomatic protest to the United States, Britain and France, the Soviet Union complains of "provocative" incidents along the Berlin wall and warns that it may be forced to "take appropriate steps" to support East German border guards.

June 9—The United States commander in Berlin sends a protestation to the Soviet commander against "lawless, irresponsible and dangerous incidents" perpetrated by East German border guards.

June 19—Soviet Premier Nikita S. Khrushchev repeats that unless an agreement is reached with the West on a German peace treaty, the Soviet Union will sign a separate pact with East Germany to "end the occupation of West Berlin." He again sets no time limit for such an agreement.

June 25—In response to the Soviet notes of June 7, the 3 Western powers suggest a 4-nation meeting to explore means of averting further violence along the Berlin wall.

A joint Soviet-Rumanian communiqué insists that the U.S., British and French occupation of West Berlin be terminated.

Casablanca Bloc

June 15—Leaders of the 6 nations signing the Casablanca Charter in 1960—the United Arab Republic, Morocco, Ghana, Guinea, Mali and the Algerian provisional government—meet in Cairo.

June 16—Leaders of the Casablanca bloc agree to establish a military high command, with headquarters in Ghana and under an Egyptian general.

June 17—The African conference ends with agreement to establish a common market to become effective on January 1, 1963.

Disarmament

June 14—The 17-nation disarmament conference at Geneva adjourns for a month.

June 21—A week-long, "World Without the Bomb" conference opens in Accra, Ghana, under the auspices of President Kwame Nkrumah. More than 100 persons, including delegates from the U.S. and the Soviet Union, attend.

June 28—At its closing session, the Accra conference calls upon the U.N. to organize trained teams of experts for disarmament inspection. The assembly also calls on African states to achieve a continent-wide disarmament project, and recommends that Communist China be admitted to the U.N.

European Economic Community (Common Market)

June 3—British Prime Minister Harold Macmillan ends 2 days of talks in Paris with President Charles de Gaulle on British membership in the Common Market. A communiqué says the men agree on most major points and pledge to push ahead with negotiations.

June 4—In London, Australian Prime Minister Robert Menzies says his country will protect "her own interests" if Britain should erect trade barriers against her upon joining the Common Market.

The Council of Ministers of the Common Market approves tariff increases on certain U.S. imports in reprisal against U.S. tariff increases on carpets and glass.

June 26—The Action Committee for the United States of Europe, headed by Jean Monnet, urges speedy admission of Britain to the Common Market and the conclusion of a treaty forming a European political union.

June 29—Meeting in Belgium, ministers of Britain and the 6 Common Market states discuss the question of Britain's agricultural trade. French Minister of Agriculture Ed-

gar Pisani urges a reorganization of the system of world trade in farm products, to ease Britain's path to membership in the E.E.C.

European Space Research Organization

June 14—Delegates from France, Britain, West Germany, Italy, Spain, the Netherlands, Belgium, Switzerland, Austria and Sweden sign in Paris a convention establishing a European Space Research Organization. With an 8-year budget of $300 million, the group plans to carry out 500 space experiments.

United Nations

June 5—Acting Secretary General U Thant says the projected U.S. nuclear tests at high altitudes "are a manifestation of a very dangerous psychosis."

June 6—A U.N. Commission recommends that the General Assembly give independence separately on July 1 to the two parts of the Belgian East African trust territory of Ruanda-Urundi.

June 8—Overriding Western opposition, African and Soviet nations vote 9 to 7 in the steering committee to recommend the addition of the Southern Rhodesian question to the agenda of the General Assembly.

June 12—Belgium's Foreign Minister Spaak suggests to the Trusteeship Committee that Belgian troops be left in Ruanda and Urundi for 3 months under command of local authorities to avoid a repetition of the Congo experience.

June 13—Premier André Muhirwa of Urundi tells the Trusteeship Committee that his country can maintain law and order without outside help, and warns that if Belgian troops are left in Ruanda, this may wreck an agreement on an economic union of the two territories.

June 14—U Thant outlines a program for the Decade of Development, seeking an annual increase of 5% in the economies of the developing countries by the end of the 1960's.

June 15—Four of the 5 permanent members of the Security Council—the U.S., Britain, France and Nationalist China—call on India to accept negotiations with Pakistan on Kashmir.

June 17—U Thant announces that the Netherlands has accepted "in principle" the Bunker plan for negotiations with Indonesia on the future of Netherlands New Guinea.

June 22—In the Security Council the U.S.S.R. vetoes a resolution to bring India and Pakistan together for negotiations on Kashmir.

June 27—The General Assembly votes, 93 to 0, to grant independence on July 1 to Ruanda-Urundi, to be split into the Republic of Rwanda and the Kingdom of Burundi. Either country may retain Belgian troops temporarily.

June 28—Concluding the longest session in its history, the General Assembly, 73 to 1, calls on Britain for a constitutional conference to give more political representation to the Africans of Southern Rhodesia. The action is taken despite British opposition.

ARGENTINA

June 5—A federal court rules that the Government's cancellation of the March 18 election results was unconstitutional.

June 6—President José Mario Guido's government appeals a District Court ruling holding unconstitutional its actions since March 18.

AUSTRIA

June 24—Chancellor Alfons Gorbach goes to Paris to seek French President de Gaulle's support for Austria's application for associate membership in the Common Market.

June 28—Arriving in Moscow for a week's visit, Gorbach says his country will stand by its policy of neutrality.

BELGIUM

Ruanda-Urundi

(See *Int'l., United Nations.*)

BOLIVIA

June 3—Incomplete returns give President Estenssoro's National Revolutionary Movement control of both houses of Congress.

BRAZIL

June 26—Premier Tancredo Neves and his 10-month-old cabinet resign.

June 27—President João Goulart submits to a hostile Chamber of Deputies the nomination of Dr. Francisco Dantas, foreign minister in the outgoing cabinet, as Premier.

June 28—The Chamber of Deputies rejects the nomination of Dantas for premier.

BRITISH COMMONWEALTH OF NATIONS

Australia

June 12—In London, Prime Minister Robert Menzies says his country will refuse to agree to the abandonment of Commonwealth preference by 1970 as the price of British entry into the Common Market.

Canada

June 18—In general elections, Prime Minister John Diefenbaker's Conservative party loses its majority in the House of Commons. It secures 116 seats, the Liberals, 99, the Social Credit party, 30, and the New Democratic party, 17.

June 24—Diefenbaker says his government is forced to borrow more than $1 million to bolster its currency. He announces an austerity program and establishes temporary tariffs.

Great Britain

(See also *International, E.E.C.*)

June 6—In a by-election in Yorkshire, a "safe" Conservative seat is lost to a Laborite.

June 15—In a West Lothian by-election, the Conservative candidate finishes third and forfeits his deposit of £150 because he receives less than one-eighth of the vote.

June 24—U.S. Secretary of State Rusk talks to Prime Minister Macmillan on the development of a multilateral nuclear force and British entry into the Common Market.

June 26—Macmillan tells Commons that Britain has an independent nuclear deterrent and intends to keep it.

June 28—Sir Winston Churchill falls and breaks his thigh.

June 29—Churchill undergoes surgery; his condition is "satisfactory."

India

(See also *International, U.N.*)

June 1—The government officially charges that border negotiations between Communist China and Pakistan are part of Peking's "aggressive designs" against India.

June 6—India accuses China of having established "no less than 5 new military bases" in the Ladakh area of eastern Kashmir since April, 1960.

June 8—Further austerity measures are announced to meet a crisis in foreign exchange.

June 16—Britain's Secretary of State for Commonwealth Relations, Duncan Sandys, arrives in New Delhi to try to persuade Prime Minister Nehru not to buy supersonic Soviet MIG jet fighters.

Pakistan

June 7—The cabinet of the military government resigns after 44 months.

June 8—President Mohammad Ayub Khan announces a return to constitutional government.

BRITISH EMPIRE, THE

(See also *Int'l., U.N., June 28*)

Uganda

June 29—The 17-day constitutional conference on Ugandan independence ends; October 9 is to be independence day for Uganda. The future of 6 disputed tribal counties under Bugandan control is left undecided.

CHINA, PEOPLE'S REPUBLIC OF (Communist)

(See also *U.S., Foreign Policy*)

June 6—The government orders that all unused land near buildings and factories be returned to farmers.

June 10—A large build-up of troops and planes begins in Fukien Province opposite the offshore islands of Quemoy and Matsu.

June 23—The government says its present military force in Fukien Province is intended to counter an anticipated U.S.-sponsored invasion by Chinese Nationalist forces.

June 25—Workers in Canton are mobilized to resist any Nationalist invasion of the mainland.

CONGO, REPUBLIC OF THE (Leopoldville)

June 12—After a stormy session, Parliament approves a budget calling for $382 million in expenditures and $150 million in revenues.

June 26—Negotiations that began in March for Katanga's reunification with the Congo break down. President Moise Tshombe of Katanga returns to Elisabethville.

FRANCE

June 3—In the worst single-plane disaster in aviation history, 130 persons are killed when an Air France jet crashes at Orly Airport. 121 of the victims are from Atlanta, Ga.

June 13—A group of heavily armed O.A.S. members is arrested at Nancy and accused of plotting to assassinate President Charles de Gaulle during his speech-making tour in east-central France.

June 19—U.S. Secretary of State Dean Rusk confers with de Gaulle. The main topic of discussion is said to be French insistence upon an independent nuclear force.

FRANCE OVERSEAS

Algeria

June 5—Ex-General Edmond Jouhaud, second in command of the French Secret Army Organization (O.A.S.), urges from his prison death cell that the O.A.S. end its campaign of terrorism in Algeria.

June 7—A week-long unofficial truce, during which the O.A.S. sought negotiations with Algerian nationalist leaders, ends with renewed bombings and arson in major Algerian cities.

June 13—Leaders of the Provisional Government refuse to agree to O.A.S. demands for increased guarantees for Europeans.

June 15—The O.A.S. lifts its ban on the departure of European men from Algeria, and a mass exodus of Europeans begins.

June 17—Leaders of the O.A.S. proclaim a new truce and order members to "suspend combat and to halt destruction." The declaration comes after Chawki Mostefai, leading nationalist member of the transitional executive council, grants 3 concessions to the O.A.S., including a general amnesty.

June 18—Calling themselves the "high command" of the O.A.S., terrorist leaders in Oran repudiate the new truce.

June 19—The Premier of the Nationalist Provisional government, Ben Youssef Ben Khedda, rebukes Mostefai for his amnesty agreement with the O.A.S.

June 22—The O.A.S. in Oran rejects the truce terms agreed to by O.A.S. leaders in Algiers and continues its terrorist activities. Former General Raoul Salan, serving a life sentence for his leadership of the O.A.S., calls for an end of terrorism and urges his followers to help build a new "brotherly Algeria."

June 25—The French government places against Salan new charges of subversion calling for the death penalty.

June 28—Official sources report from Paris that France has settled on the procedure for handing over the governmental powers to a new Algerian government. The only remaining question is whether the Algerian and French soldiers should salute one another. On July 1, the Algerian people will vote in a self-determination referendum.

June 30—The Algerian Provisional government dismisses the nationalist liberation army's 3-man General Staff—Colonel Houari Boumedienne and Majors Slimane and Mendjli—accused of "criminal activity."

GERMANY, DEMOCRATIC REPUBLIC OF (East)

June 13—East Germans are told to raise chickens and pigs in their backyards to help overcome a severe food shortage.

June 27—Communist Party First Secretary Walter Ulbricht dismisses as unnecessary a Western proposal for Big Four talks about the violence along the Berlin wall. He says negotiations between his regime and West Berlin's Senate can settle the matter.

GERMANY, FEDERAL REPUBLIC OF (West)

June 22—West German Chancellor Konrad Adenauer and U.S. Secretary of State Rusk confer in Bonn and reach "agreement on all major issues."

June 23—Foreign Minister Gerhard Schroeder says that the U.S. and West Germany have agreed on the desirability of a "multilateral European nuclear force."

INDONESIA

(See also *International, U.N.*)

June 5—President Sukarno tells the U.N. that his government is increasing its military activity against New Guinea because the Dutch are reinforcing their troops there.

June 24—A Dutch communiqué says 150 Indonesian paratroopers have made a new landing in New Guinea.

IRAQ

June 2—The Government orders the U.S. ambassador to leave and recalls its ambassador from Washington to protest U.S. accreditation of an ambassador from Kuwait.

June 11—Rebel Kurdish guerrillas report they have defeated 2 Iraqi army battalions in severe fighting in northern Iraq. The rebels say their revolt will continue until the Kurds secure self-rule within the framework of the Iraqi national union.

ISRAEL

(See also *U.S., Government*)

June 28—Police arrest Robert Soblen, who fled the U.S. 2 days ago when he was due to start serving a life sentence for espionage. The U.S. begins discussions with the Israeli government for his return.

ITALY

June 10—Municipal elections take place in 157 cities and towns.

June 16—Results of municipal elections in 157 cities and towns, held June 10–11, show minor shifts in the popular vote. A few more Communists are elected in the industrialist North, fewer in the poorer South, and a few more neo-Fascists in Rome. The new Center-Left government of Premier Amintore Fanfani is considered to have weathered its first political test.

June 18—The government announces moves to nationalize the electricity industry.

June 23—U.S. Secretary of State Rusk arrives in Rome for talks with key officials.

KOREA, SOUTH

June 1—The Government reports it has smashed a plot to overthrow the ruling junta and kill its members; 41 persons, leaders of the deposed Democratic party, are arrested.

June 6—About 1,500 university students engage in anti-American demonstrations, protesting the beating by 2 U.S. army officers of a Korean suspected of stealing. They demand that American offenders against Koreans be tried in Korean courts.

June 9—The Government unexpectedly invalidates the hwan, the major unit of currency. Ten hwan are to be replaced with one of the new unit, called the "won," with an exchange rate of 130 won to the U.S. dollar.

June 14—An American court martial convicts and punishes 2 U.S. officers for the beating of a Korean thief.

June 16—Premier Song Yo Chan resigns because of his differences with the government over fiscal policies. His cabinet resigns with him, but the military junta accepts only his resignation and that of the Finance Minister.

June 18—General Chung Hee Park, chief of the military junta and acting President, assumes temporarily the post of Premier.

LAOS

June 11—The 3 major factions agree on the formation of a coalition government to be headed by Prince Souvanna Phouma, neutralist leader. Of the 19 men named for the new cabinet, 11 are neutralists, 4 are members of the royal government, and 4 are from the pro-Communist Pathet Lao group.

June 15—The right-wing National Assembly overwhelmingly approves the agreement to form a coalition government.

June 18—Refusing to accept the approval of the National Assembly, the 4 Pathet Lao and 5 of the neutralist nominees for the new cabinet refuse to come to Vientiane to be installed by King Savang Vatthana.

June 21—General Phoumi Nosavan, the leader of the royalist faction, accedes to opposition demands that the new regime should be formed by royal decree without

the participation of the National Assembly.

June 22—The King installs the new coalition government. The new Premier, Souvanna Phouma, announces that the country no longer recognizes the protection of Seato.

June 25—Britain and the Soviet Union, co-chairmen, agree to reconvene the 14-nation Geneva conference on Laos so that a final accord can be signed. The Soviet Union proposes that the final agreement should be signed by the foreign ministers; the conference will convene initially below this level.

LEBANON

June 1—A mass trial of 230 persons, charged with attempting to overthrow the government in January as part of a "Greater Syria" movement, begins in Beirut.

MEXICO

June 29—U.S. President and Mrs. John F. Kennedy are greeted by 1 million persons upon their arrival in Mexico.

MOROCCO

June 21—Returning from a Cairo meeting of African neutralists, King Hassan orders the closing of a Jewish aid office on charges that it encouraged massive departures of Moroccan Jews to Israel.

PERU

June 10—In one of the freest elections ever seen in the nation's history, Peru votes for a new President and Congress.

June 28—The armed forces charge there were "grave irregularities" in the presidential vote count which shows Victor Haya de la Torre, a moderate leftist, to be the winner over the military's candidate, Fernando Belaunde. The army hints it will nullify the election.

June 30—The final official count of the votes cast in the presidential elections reveals that no candidate received the necessary one-third of the votes. The official tally does not include votes whose validity is questioned by other parties or by the army. The National Electoral Board convenes to rule on the questionable ballots.

PHILIPPINES, THE

June 22—In an official note handed to the British Ambassador, the government claims sovereignty over British North Borneo and asks that talks be held immediately in London or Manila for a speedy settlement.

PORTUGAL

June 27—U.S. Secretary of State Rusk receives a correct but cool official welcome from high officials on his Lisbon visit.

June 28—The U.S. and Portugal agree to resume negotiations for a 5-year extension of U.S. military rights in the Azores Islands.

RUMANIA

June 18—Soviet Premier Khrushchev arrives in Bucharest for a week-long official visit.

SOUTH AFRICA, REPUBLIC OF

June 4—It is revealed that the Government has started a major drive to induce 50,000 Europeans a year to settle in the country.

June 6—The Government says it is negotiating with Britain to close the borders with Basutoland, Swaziland and Bechuanaland to prevent the flight of political refugees. It is also announced that all British and Commonwealth subjects will be classified as aliens after January 1, 1963.

June 27—The "sabotage bill" becomes law. The definition of sabotage includes strikes and opposition political activity; penalties range from a minimum of 5 years' imprisonment to death.

SPAIN

June 9—Arriving in Madrid after attending a Munich conference of Spaniards opposed to Generalissimo Francisco Franco, 4 prominent leaders of the opposition movement are arrested and given their choice of forced residence in Spain or exile.

June 10—Three key opposition leaders choose to go into exile. They are José Maria Gil Robles, head of the Democratic Christian movement, Jesus Prados, noted economist, and Joaquin Satrustegui, leader of the liberal monarchist movement.

June 17—Gil Robles resigns from the Privy Council to the pretender to the Spanish throne, Count Juan de Bourbon.

SYRIA

June 6—Premier Bashir Azmeh announces he

will take steps toward a restoration of elements of Syria's union with the U.A.R. He calls for a federal union under which Syria would retain her sovereignty.

U.S.S.R., THE

(See also *Int'l., Berlin Crisis.*)

June 1—A major increase in food prices—30% for meat and 25% for butter—is announced.

June 3—The Government warns that the U.S. will seriously aggravate the international situation if it holds high-altitude nuclear tests.

June 6—Top leaders of Czechoslovakia, Poland, Bulgaria, East Germany, Hungary, Rumania and the U.S.S.R. meet in Moscow to consider means of meeting the challenge of the Common Market.

June 7—A communiqué following the Comecon meeting calls for an international conference to establish an agency to increase world trade and asks for more foreign trade between East and West.

Soviet Premier Nikita Khrushchev denounces the Common Market as an unnatural association aimed at hindering the free flow of goods in international trade.

June 13—In notes to U.S. President Kennedy and British Prime Minister Macmillan, Khrushchev hails the new Laotian agreement and says it could be a guide to solutions of other problems between East and West.

After being rebuffed in demands for tariff concessions equal to those accorded to the Common Market countries, the Soviet Union suspends its trade talks with France.

June 16—Khrushchev accuses Kennedy and Macmillan of "deliberately involving" the Soviet Union in another round of nuclear tests.

UNITED ARAB REPUBLIC, THE

(See also *Syria.*)

June 11—The U.A.R. indicates it is ready to "open the door" for a discussion of reunion with Syria whenever Cairo is convinced the Damascus regime represents the "free will of the Syrian people."

UNITED STATES, THE

Agriculture

June 21—The House kills the Kennedy farm bill, by returning it to committee.

June 26—Secretary of Agriculture Orville Freeman, "with greatest reluctance," announces a national wheat allotment of 55 million acres for 1963 and a minimum price support of $1.82 a bushel.

The Economy

June 1—Former President Eisenhower says the "reckless spending programs" of the Kennedy administration and a resulting lack of confidence in the nation's economy may have contributed to the sharp stock market decline.

June 7—The Bank for International Settlement, located in Switzerland, suggests that the U.S. should tackle its key economic problems by increasing the budget deficit to restore full employment. The bank also suggests that interest rates should be raised to curb the flow of funds overseas.

June 11—In a speech at Yale University, Kennedy calls for cooperation between government and business to pump new life into the economy.

Kennedy meets Roger Blough, president of U.S. Steel, and other business leaders to discuss the balance of payments problem and the outflow of gold.

June 12—The government reports that nonfarm payroll employment reached a record May figure of 55,097,000; May retail sales declined 1 per cent; personal income rose; and corporate profits for the first quarter were $51.5 billion, slightly less than for the last quarter of 1961.

June 19—The Civil Aeronautics Board grants Howard Hughes permission to buy control of Northeast Airlines through his Hughes Tool Company.

June 25—The Justice Department subpoenas telephone records and expense accounts of executives of 4 major steel companies to see if there is evidence of a price-fixing conspiracy.

June 26—After a 3 month rise, the Consumer Price Index is unchanged in May.

Foreign Policy

June 7—President Kennedy repeats his government's refusal to aid France in the development of nuclear weapons, even in exchange for French economic concessions to Britain or the U.S.

June 12—President Roberto F. Chiari of Panama arrives in Washington for 2 days of discussions with Kennedy on Canal Zone rights.

June 13—Answering Khrushchev's note welcoming the formation of a neutral coalition government in Laos, Kennedy warns that "no untoward actions anywhere" must disrupt the gains that have been made.

June 18—Australian Prime Minister Menzies confers with Kennedy on Britain's proposed membership in the European Common Market.

Secretary of State Dean Rusk begins visits to Paris, Bonn, Rome, London and Lisbon to work out "the next steps" to strengthen the Atlantic Alliance.

June 27—Kennedy says the U.S. "would not remain inactive" if a Communist Chinese attack on Quemoy and Matsu appeared to threaten Taiwan. (See also *China.*)

June 30—President Kennedy and Mexican President Adolfo Lopez Mateos issue a joint communiqué from Mexico City during Kennedy's state visit to Mexico. The communiqué hails a "new era of understanding" between the two nations. (See also *Mexico.*)

Government

June 7—Kennedy says he will ask Congress to enact "across-the-board" personal and corporate income tax cuts next year, to take effect on January 1.

Surgeon General Luther L. Terry reveals he will appoint an advisory committee to study the effect of cigarette smoking on health.

The Senate approves a $4.6-billion foreign aid authorization bill after amending it to prohibit new loans, cash grants or military assistance to Yugoslavia and Poland.

June 8—A Senate Armed Services subcommittee ends its 9-month inquiry into charges that the Pentagon has curbed military officers.

June 12—The Senate Permanent Subcommittee on Investigations opens hearings on the affairs of the American Guild of Variety Artists.

June 13—The Senate passes a record-breaking $48 billion defense appropriation bill, including $320 million for development of the RS-70 bomber.

June 14—The House votes to raise the national debt limit to $308 billion.

June 18—A Texas judge dismisses a grand jury that for 5 weeks has been investigating the death of an Agriculture Department aide looking into the dealings of Billie Sol Estes.

June 19—Herbert D. Vogel resigns as T.V.A. chairman: Robert Cutler resigns as U.S. executive director of the Inter-American Development Bank.

June 21—A federal grand jury hands down a new indictment of 29 counts against Estes.

By a vote of 215 to 205, the House kills the administration's farm bill, by returning it to committee.

June 25—Estes asks and the Texas District Court agrees to start immediately his trial on charges of stealing $827,577.

June 27—The Senate Permanent Subcommittee on Investigations opens its hearing on the Agriculture Department's handling of Estes' disputed cotton allotments.

The Estes theft trial is ordered shifted from the defendant's home town to a county 500 miles away, with no indication of when it can be scheduled on the court's calendar.

Convicted Soviet spy Robert Soblen, scheduled to start a life sentence, disappears.

June 28—The House, 298 to 125, passes the Kennedy foreign trade bill.

The Senate passes and sends to the President a measure raising the national debt ceiling to $308 billion.

President Kennedy signs the first permanent legislation to admit refugees without regard to immigration quotas.

Soblen turns up in Israel; his $100,000 bond is forfeited, and the U.S. government

begins legal and diplomatic efforts to have him returned.

The President signs a bill repealing federal travel taxes on bus, rail and water transport and reducing the airline tax to 5 per cent, as of November 15. Excise and corporate income taxes are to be continued for another year at the "Korean War" level.

June 30—The fiscal year ends with a budget deficit of $7 billion.

Labor

June 4—The nation's railroads agree to wage increases for 500,000 off-train employees.

June 15—The Flight Engineers International Association rejects for the third time Kennedy's proposal that all issues in its dispute with 3 major airlines be submitted to arbitration.

June 21—An agreement between Trans World Airlines and flight engineers averts a threatened strike on that airline. Officials of the union's chapter at Eastern Air Lines and Pan American World Airways reject the T.W.A. formula for gradual reduction of flight crews from 4 to 3 men.

June 22—Charging the unions with delaying tactics, the nation's railroads break off negotiations with the 5 operating brotherhoods.

June 23—Flight engineers go on strike at two airlines, but only one is immediately affected. Pan American secures a temporary restraining order against the engineers.

June 26—A. U.S. district judge extends for 10 days his order barring a strike by Pan American World Airways flight engineers.

June 28—The 5 major aluminum companies and the United Steelworkers sign 2-year contracts providing for no wage increases but for increased fringe benefits.

June 29—The railroads indicate to the National Mediation Board that they will submit their controversy over work rules to binding arbitration.

United Automobile Workers President Walter Reuther urges a $10 billion cut in income taxes in the lower and middle income brackets.

Military Policy

June 4—An attempt to set off a thermonuclear explosion in the atmosphere over the Pacific fails.

June 15—A House Appropriations subcommittee eliminates the entire $460 million requested by the Defense Department to start a nation-wide fallout shelter program.

June 16—Secretary of Defense Robert McNamara makes the first detailed public explanation of why the U.S. is urging upon its allies the policy that the nuclear deterrent of the West should be "indivisible."

June 19—For the second time the U.S. fails to detonate a high-altitude nuclear device.

June 30—The Department of Defense reveals that before the end of 1962, 7,500 troops in 42 small noncombat Army units will return from Europe.

Politics

June 5—Richard Nixon wins the Republican gubernatorial primary in California by a 2 to 1 margin over his main opponent, Joseph Shell, who was backed by the party's right wing.

June 7—Congressional Republicans issue "A Declaration of Republican Principles and Policy," accusing the Kennedy administration of "incompetence" in economic matters and "whimpering" in foreign affairs.

June 8—The Massachusetts Democratic Convention endorses Edward Kennedy for the U.S. Senate. Edward McCormick, nephew of House Speaker John McCormick, will oppose him in the September 18 primary.

June 19—California State Assemblyman Shell, dropping former conditions as the price for supporting Nixon in the gubernatorial race, endorses the candidacy of the G.O.P. nominee.

Segregation

June 1—A federal judge in Macon rules that all voting places in Bibb County, Georgia, must be desegregated within a year.

June 9—It is revealed that public schools in the South have come through their first academic year without any violence since 1954.

June 10—The Archbishop of Atlanta announces that the students will be admitted on a non-racial basis to Roman Catholic schools in that city, beginning in September, 1963.

June 19—The Justice Department takes action to restore the job of a Negro school teacher in Mississippi who was allegedly dismissed after attempting to register to vote.

June 22—Kennedy urges industry to speed up equality of job opportunities for Negroes.

Supreme Court

June 4—The Court sets aside the convictions of 6 Freedom Riders who attempted to desegregate a bus terminal in Louisiana.

June 11—A 3-judge Federal District Court is ordered by the Supreme Court to reconsider a New York State legislative district apportionment suit in the light of the March 26 Tennessee apportionment case.

June 18—In a 5 to 3 decision, the Court rules that federal courts have no power to stop strikes called in violation of collective bargaining agreements.

June 25—The Court holds 6 to 1 that the reading of an official prayer in New York public schools violates the First Amendment to the Constitution.

A California law making it a crime to be addicted to narcotics or to make unprescribed use of them is ruled unconstitutional by the Court.

In 2 anti-trust cases, the Court rules that (1) the Clayton Act is intended to stop "in their incipience" any "tendencies toward concentration in industry," and (2) individual corporate officers may be prosecuted under the Sherman Act for actions taken in their companies' behalf.

VENEZUELA

June 2—In the second marine uprising in less than a month, 450 marines attempt to seize the naval base of Puerto Cabello.

June 4—After 2 days of severe fighting and with 150 fatalities, government forces suppress the marine revolt.

VIETNAM, SOUTH

June 2—The International Control Commission, consisting of delegates from Canada, India and Poland, reports that North Vietnam has been supplying Viet Cong rebels in violation of the Geneva agreement on Indochina. Poland does not sign the report.

June 16—Two U.S. Army officers and 15 Vietnamese troops are killed in a guerrilla ambush 35 miles from Saigon.

June 18—Vietnamese forces kill 54 guerrillas in 2 battles.

June 19—U.S. Secretary of the Treasury C. Douglas Dillon agrees to waive the "Buy American" restriction on funds to South Vietnam to permit grants of $22 million with no strings attached.

June 21—A South Vietnamese communiqué reports the third border violation, with attendant fighting, by Cambodia in the last 7 days.

June 26—Kennedy reverses the waiver of the "Buy American" requirement.

June 27—A 3-day land, sea and air offensive against guerrillas 50 miles from Saigon ends with few contacts made with the enemy.

June 29—South Vietnamese paratroopers are dropped by U.S. planes into a major rebel stronghold in a large scale offensive. Vietnamese marines are sent by boat to reinforce the paratroopers.

June 30—The Vietnamese government, in a note to the International Control Commission on Indochina, charges that Communist China has supplied North Vietnam and hence also the Viet Cong (Communist) guerrillas with new weapons.

YUGOSLAVIA

June 9—The people are warned by an official economic journal to be prepared for a harvest so meager as to be classified almost a disaster. Indications are that the wheat crop will be less than 3 million tons, or 1 million tons under annual requirequirements. Reports on corn and sugar beets are equally discouraging.

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